

# RISK MANAGEMENT REPORT 2025



People first  and foremost

This report includes supplementary information to the Bank's financial statements and is prepared in accordance with the Supervisor of Banks' directives, which include disclosure requirements from Basel Pillar III and additional disclosure requirements by the Financial Stability Board (FSB). The report is available on the Israel Securities Authority's MAGNA website - [www.magna.isa.gov.il](http://www.magna.isa.gov.il) and on the Bank website at [www.mizrahi-tefahot.co.il/en](http://www.mizrahi-tefahot.co.il/en) financial reports.

# Bank Mizrahi Tefahot

## 2025 Risks Management Report

This translation of the Risks Report is for convenience purposes only. The only binding version of the Risks Report is the Hebrew version.

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

The following reports are available on ISA's MAGNA website: This risks report and other supervisory information about supervisory capital instruments issued by the Bank. below. "the reports").

In conformity with directives of the Supervisor of Banks, the condensed financial statements for the interim period and the aforementioned reports are also available on the Bank website:

[www.mizrahi-tefahot.co.il](http://www.mizrahi-tefahot.co.il) >> about the bank >> investor relations >> financial statements.

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## Risks Report

This risks report includes additional information to the consolidated financial statements of Bank Mizrahi Tefahot Ltd. and its subsidiaries as of December 31, 2025. The condensed financial statements and additional information to the condensed financial statements, including the Report of the Board of Directors and Management, this Risks Report and other supervisory disclosures have been approved for publication by the Bank's Board of Directors at its meeting held on February 25, 2026.

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

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

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

[www.mizrahi-tefahot.co.il](http://www.mizrahi-tefahot.co.il) About the Bank >> Investor Relations >> Financial Information

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

**Avraham Zeldman**  
Chairman of the Board of Directors

**Moshe Lari**  
President & CEO

**Ofer Horvitz**  
Vice-president Chief Risks Officer (CRO)

Approval date of the financial statements and risks report:  
Ramat Gan, February 25, 2026

## Forward-looking information

Some of the information in the Risks Report, 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.

## Application scope

Mizrahi Tefahot Group is supervised on a consolidated basis by the Supervisor of Banks at the Bank of Israel. Consolidation of the consolidated entities and recording of the carrying amount of associates are in conformity with generally accepted accounting principles and in conformity with directives of the Bank of Israel. As of December 31, 2025, there were no differences between the consolidation basis based on accounting principles and the supervisory consolidation basis for capital adequacy purposes. As required by directives of the Bank of Israel, the data presented in conjunction with supervisory disclosure requirements in conformity with provisions of the Basel Committee included in this report, are only presented on a consolidated basis and are based on the financial information presented on the financial statements, with adjustments mandated by application of the Basel Committee directives (such as: deductions from capital, debt instruments qualified for inclusion in regulatory capital, special treatment of accounting effect with respect to streamlining plan on Bank capital).

For more information about investees, see chapter "Major investees" on the Report by the Board of Directors and Management and in Notes to the financial statements as of December 31, 2025.

## Key supervisory ratios and overview of risk management and weighted risk assets

### Key supervisory ratios – key data

Below is key data relevant for the Bank risk profile:

|   | 2025           |               |                |               | 2024           |               |                |                     |
|---|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------------|
|   | Fourth quarter | Third quarter | Second quarter | First quarter | Fourth quarter | Third quarter | Second quarter | First quarter       |
| <b>Key supervisory and financial ratios</b>   |                |               |                |               |                |               |                |                     |
| <b>Available capital</b>  |                |               |                |               |                |               |                |                     |
| Tier I equity <sup>(1)</sup>  | 35,239         | 34,406        | 33,591         | 32,629        | 31,963         | 31,128        | 30,252         | 29,422              |
| Tier I capital before effect of transitional provisions   | 35,239         | 34,406        | 33,591         | 32,629        | 31,874         | 31,039        | 30,163         | 29,333              |
| Total capital   | 44,910         | 44,243        | 42,749         | 41,855        | 41,060         | 40,549        | 39,541         | 37,851              |
| Total capital before effect of transitional provisions  | 44,910         | 44,243        | 42,749         | 41,855        | 41,040         | 40,529        | 39,521         | 37,831              |
| <b>Risk weighted assets</b>   |                |               |                |               |                |               |                |                     |
| Total risk weighted assets (RWA)  | 344,155        | 339,205       | 322,657        | 314,583       | 307,364        | 298,536       | 289,808        | 277,611             |
| <b>Capital adequacy ratio (in %)</b>  |                |               |                |               |                |               |                |                     |
| Tier I capital ratio <sup>(1)</sup>   | 10.24          | 10.14         | 10.41          | 10.37         | 10.40          | 10.43         | 10.44          | 10.60               |
| Tier I capital ratio before effect of transitional provisions                                     | 10.24          | 10.14         | 10.41          | 10.37         | 10.37          | 10.39         | 10.40          | 10.56               |
| Total capital ratio   | 13.05          | 13.04         | 13.25          | 13.30         | 13.36          | 13.58         | 13.64          | 13.63               |
| Total capital ratio before effect of transitional provisions                                      | 13.05          | 13.04         | 13.25          | 13.30         | 13.35          | 13.57         | 13.63          | 13.62               |
| Tier I capital ratio required by Supervisor of Banks  | 9.60           | 9.60          | 9.60           | 9.60          | 9.60           | 9.60          | 9.60           | 9.60                |
| Available Tier I capital ratio, beyond what is required by the Supervisor of Banks <sup>(2)</sup> | 0.64           | 0.54          | 0.81           | 0.77          | 0.80           | 0.83          | 0.84           | 1.00                |
| <b>Leverage ratio</b>   |                |               |                |               |                |               |                |                     |
| Total exposure  | 599,134        | 572,454       | 556,629        | 540,851       | 529,598        | 517,795       | 505,336        | 491,302             |
| Leverage ratio (in %) <sup>(3)</sup>  | 5.88           | 6.01          | 6.03           | 6.03          | 6.04           | 6.01          | 5.99           | 5.99                |
| Leverage ratio before effect of transitional provisions (in %)                                    | 5.88           | 6.01          | 6.03           | 6.03          | 6.02           | 5.99          | 5.97           | 5.97                |
| <b>Liquidity coverage ratio<sup>(4)</sup></b>   |                |               |                |               |                |               |                |                     |
| Total high quality liquid assets  | 95,546         | 93,839        | 96,636         | 92,696        | 90,905         | 87,202        | 88,501         | 85,893              |
| Total outgoing cash flows, net  | 74,005         | 71,365        | 71,607         | 66,543        | 67,313         | 68,489        | 67,447         | 61,899              |
| Liquidity coverage ratio (in %)   | 129            | 131           | 135            | 139           | 135            | 127           | 131            | 139                 |
| <b>Net stable funding ratio</b>   |                |               |                |               |                |               |                |                     |
| Total available stable funding  | 331,450        | 326,864       | 321,248        | 314,616       | 306,692        | 301,090       | 291,303        | 284,082             |
| Total required stable funding   | 297,002        | 293,031       | 286,456        | 278,777       | 272,502        | 266,114       | 256,681        | 249,506             |
| Net stable funding ratio (in %)   | 112            | 112           | 112            | 113           | 113            | 113           | 113            | 114                 |
| <b>Performance benchmarks</b>   |                |               |                |               |                |               |                |                     |
| Net profit return on equity <sup>(6)(7)</sup>   | 16.3           | 17.6          | 17.8           | 16.2          | 16.9           | 19.0          | 19.9           | <sup>(6)</sup> 18.1 |
| Net profit return on risk assets <sup>(6)(7)</sup>  | 1.63           | 1.78          | 1.81           | 1.66          | 1.71           | 1.93          | 2.03           | 1.84                |
| Deposits from the public to loans to the public, net  | 112.0          | 107.6         | 110.8          | 109.6         | 109.9          | 110.6         | 110.6          | 110.6               |
| <b>Key credit quality benchmarks</b>  |                |               |                |               |                |               |                |                     |
| Ratio of balance of provision for credit losses to total loans to the public                      | 0.95           | 0.98          | 1.06           | 1.11          | 1.14           | 1.17          | 1.20           | 1.22                |
| Ratio of non-accruing debts or debts in arrears 90 days or longer to loans to the public          | 1.02           | 1.05          | 1.07           | 1.12          | 1.21           | 1.24          | 1.14           | 1.11                |
| Expenses with respect to credit losses to loans to the public, net for the period <sup>(7)</sup>  | 0.02           | 0.04          | 0.06           | 0.11          | 0.12           | 0.15          | 0.13           | 0.21                |
| Of which: With respect to group provision   | (0.08)         | (0.05)        | 0.01           | (0.03)        | (0.04)         | 0.04          | (0.03)         | 0.10                |
| Of which: With respect to commercial loans other than residential mortgages                       | 0.20           | 0.19          | 0.16           | 0.40          | 0.34           | 0.28          | 0.31           | 0.50                |
| Of which: with respect to residential mortgages   | (0.09)         | (0.05)        | (0.01)         | (0.06)        | (0.02)         | 0.07          | 0.02           | 0.04                |
| Ratio of net accounting write-offs to average loans to the public <sup>(7)</sup>                  | 0.09           | 0.17          | 0.13           | 0.15          | 0.17           | 0.10          | 0.08           | 0.16                |

# Risks Report

## As of December 31, 2025

Below is key data relevant for the Bank risk profile – Continued:

|   | For the year ended December 31 |      |
|---|--------------------------------|------|
|   | 2025                           | 2024 |
| <b>Performance benchmarks</b>   |                                |      |
| Net profit return on equity <sup>(6)</sup>  | 17.0                           | 18.5 |
| Net profit return on risk assets <sup>(6)</sup>                                   | 1.72                           | 1.87 |
| <b>Key credit quality benchmarks</b>  |                                |      |
| Expenses with respect to credit losses to loans to the public, net for the period | 0.06                           | 0.14 |
| Of which: With respect to group provision   | (0.04)                         | 0.02 |
| Of which: With respect to commercial loans other than residential mortgages       | 0.22                           | 0.34 |
| Of which: with respect to residential mortgages                                   | (0.05)                         | 0.03 |
| Ratio of net accounting write-offs to average loans to the public                 | 0.13                           | 0.13 |

(1) The Bank has no capital instruments included in "Additional Tier I capital", so that total Tier I capital equals total Tier I equity.

(2) Including a capital requirement at 1% of the residential mortgage balance as of the date of the financial statements.

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

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

(6) Net profit attributable to shareholders of the Bank.

(7) Annualized.

## Bank approach to risk management

Efficient, comprehensive risk management is a major pillar for ensuring bank stability over time. The risks management strategy at the Bank is designed to identify, manage, monitor, quantify, avoid or mitigate all material risks associated with Bank operations and to support achievement of its 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 and concentration risks, financial risks that include liquidity risk and market and interest risks, compliance and regulatory risk, operational risks including IT risk, information and cyber security risk, legal risk, human capital risk, model risk and other risks mitigated as part of business management at the Bank, such as: Reputational risk, climate and environmental risks, strategic business risk and business and geopolitical environment risk.

This chapter describes the responsibility of management and of the Board of Directors in risk assessment and management processes, designed to disclose to stakeholders relevant, material information for understanding all significant risks to which the Bank is exposed, the Bank's risk tolerance and risk appetite with respect to its major operations, the Bank's risk profile and material developments in the reported period which have material potential to impact risks and risk management at the Bank.

### General information regarding management of various risks and the risk profile

The Bank has in place an extensive framework for management and control of the risks to which the Bank is exposed, including an organizational structure supporting management and control of such risks. 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 Proper bank Management 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 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 the measures for risk mitigation. The Bank's policy documents for risk control and management are based on these principles.

Risk management at the Bank Group is conducted based on an overview of Bank activity in Israel and at overseas affiliates, in conformity with regulatory requirements and in order 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.

Risk appetite defines the overall risk level which the Bank is willing to assume and constitutes a oversight ruling. 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 Bank's risk appetite - the overall risk level which the Bank is willing to assume.

#### Effects of the war

During 2025, the Israeli economy continued to deal with the consequences of the Iron Swords War and to operate in an environment of high geopolitical uncertainty due to the ongoing fighting. During the year, economic activity in Israel has recovered gradually, with substantial variation between the different quarters. In the first quarter of 2025, economic activity in Israel continued a moderate recovery trend following the ceasefire in the north and the subsidence of the fighting in the south. In the second quarter, Operation Rising Lion triggered a contraction in GDP; however, in the third quarter - after the operation has ended and the geopolitical uncertainty subsided - GDP has recovered, and the economic indicators for the fourth quarter indicate further expansion in economic activity. Israel's risk premium declined after the end of Operation Rising Lion and the ceasefire agreement in Gaza; however, this premium is still higher than pre-war levels. This occurred alongside an increase in domestic share indices.

After an increase in the third quarter of 2023 due to the outbreak of the war, in the current quarter, risk assessments remained unchanged for most risks despite the improvement in economic parameters and in the security situation, and despite the fact that no material changes were observed in the various risk benchmarks, except for a decrease in the risk level with respect to borrower and collateral quality, which reverted to medium, given that the potential impact of the war on credit quality did not materialize. Economic activity in Israel is recovering, the credit-quality indicators do not point to a deterioration or the emergence of material risk concentrations. In addition, further interest-rate cuts and a decline in inflation rates are expected to improve borrowers' repayment capacity. The Bank will continue assessing the risk assessments in the forthcoming quarters.

For more information see chapter "Risks Overview" below, as well as the Report of the Board of Directors for 2025.

## The State of Israel's Credit Rating by International Rating Companies

During 2025 the rating agencies left the rating unchanged (after it was downgraded in 2024) due to the potential future effects of the war, the economic uncertainty and the anticipation of stability in the security and geopolitical conditions, with an improvement in the rating outlook, as detailed below:

| Rating agency | Credit Rating | Rating outlook | Latest rating update   |
|---------------|---------------|----------------|--|
| S&P           | A             | Stable         | During 2024, the rating was downgraded and the rating outlook remained negative.<br>May 9, 2025 - the rating and the rating outlook were not changed due to security and economic risks.<br>November 7, 2025 - affirmation of the rating and upgrading the rating outlook to stable. The agency noted that the ceasefire agreement triggered the subsidence of security tensions in the region which it expects will support the recovery of the Israeli economy.  |
| Moody's       | Baa1          | Stable         | During 2024, the rating was downgraded by three notches and the rating outlook remained negative.<br>July 9, 2025 - the rating and the rating outlook were not changed.<br>October 17, 2025 - the rating and the rating outlook were not changed.<br>January 31, 2026 - upgrading the rating outlook to stable in view of the decline in security risks. The review noted that the geopolitical environment is fragile, and that the ceasefire might not hold, which might result in resumption of military conflicts; however, according to the review the geopolitical conditions have improved such that the risk for a deterioration in Israel's credit profile has declined to a material extent. |
| Fitch         | A             | Negative       | During 2024, the rating was downgraded and the rating outlook remained negative.<br>March 31, 2025 - the rating and the rating outlook were not changed due to security and economic risks.<br>October 19, 2025 - the rating and the rating outlook were not changed.<br>October 30, 2025 - The rating outlook of the five largest banks was revised to stable and the rating was affirmed at A-. The revision reflects the Bank's stability when faced with challenges since the outbreak of the war, and the reduced risks in the banking system.  |

The banks' rating is influenced by the country's rating, and the Bank's credit rating and credit forecast was revised accordingly.

## Corporate governance of risks management at the Bank

Corporate governance at the Bank is supportive of maintaining a risk management culture, and is based on three lines of defense: First line of defense – the business lines; Second line of defense – the Risks Management Division headed by the Bank Chief Risks Officer (CRO), which is the primary control function, along with control functions from other divisions; and the third line of defense – the Internal Audit Division.

The Board of Directors and management constitute additional lines of defense, acting to supervise operation of the three lines of defense.

These lines of defense are intended to ensure that the Bank has deployed an appropriate framework for risks management and control. Below is specification of the business functions in the three lines of defense:

### Lines of Defense

| Line                          | Function  | Reporting to  | Role   |
|-------------------------------|---|---|--|
| <b>First line of defense</b>  | Corporate divisions at the Bank   | Corporate Division managers, reporting directly to the President & CEO      | Corporate division managers, who are the risk managers and risk takers, bear full responsibility for risk management and for implementing an adequate control environment over their operations, while striving to achieve their strategic targets and objectives, in line with the specified risk appetite and regulatory directives.   |
| <b>Second line of defense</b> | Risks Management Division, which is the primary control function, and other units from other divisions. | Manager, Risks Management Division – reporting to the Bank President & CEO. | The Risks Management Division, headed by the CRO, is independent of the business units, acts together with control functions of other divisions, including the Financial Information and Reporting Division and the Legal Division, in order to complete the risk management activities of the first line of defense, and to support management in promoting an integrated, enterprise-wide vision of risks (Enterprise Risk Management – ERM), plan and develop the risk management framework, formulating risk assessment methodologies, ensuring alignment of Bank operations with the risk appetite set by the Board of Directors, challenge and ensure completeness and effectiveness of the risk management framework and internal controls. |
| <b>Third line of defense</b>  | Internal Audit Division   | Chairman of the Bank's Board of Directors                                   | The Internal Audit Division acts objectively and independently, reviews the effectiveness and efficiency (mostly in retrospect) of work processes and risk management in conformity with a risk-based multi-annual program, identify weaknesses in internal controls which may impact the effectiveness of control and monitoring remedial action taken for such identified weaknesses.  |

In addition to these three lines of defense, the Bank has another line of defense - its independent auditor, which is charged with verifying that effective controls are in place over internal processes that affect financial reporting; this line of defense comprises a list of tests to substantiate the balances, the amounts and the manner of presentation in the financial statements. The independent auditor reports directly to the Audit Committee.

Different interfaces have been specified between the lines of defense, including regular monitoring processes, committees, forums and reporting channels deployed under normal and emergency conditions, in order to maintain a high-quality risks management culture and good communications between the three lines of defense, as a basis for proper risk management governance. Communication of risk-related information is designed to ensure optimal addressing by the Bank of the material risks for its operations, or the potential for development of such risks, while achieving its business targets.

The functions involved in risks management and control at the Bank are as follows:

**The Bank's Board of Directors** is 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. The Board of Directors operates through multiple professional committees, tasked with conducting comprehensive and in-depth discussion of the various matters before they are brought for discussion and approval by the Board plenum.

**Risk Management Committee** – A committee which advises the Board of Directors, discusses matters concerning risk management and control at the Bank and risk strategy, including current and future risk appetite, and capital planning and management. The Committee also supervises how executive management implements the risk strategy.

The Committee is responsible for approval of the Bank's risks mapping and the dedicated policy documents for each of the Bank's risks. These documents specify the corporate governance, the nature of the risk and the risk appetite adjusted for strategic operations, as well as the risk management and measurement processes and methods applied by the Bank to mitigate it, including effective monitoring and control processes.

The Committee conducts a quarterly discussion of the Bank's risks document, which presents an overview of the current and future risk profile and concise, clear reporting of all material and evolving risks and their evolution over time, with emphasis on events in the reported quarter, on the quarterly and annual risks document and on the annual ICAAP (Internal Capital Adequacy Assessment Process) document and results of the Bank of Israel Uniform Stress Scenario and its impact on Bank data, profitability and stability of Bank capital.

The Committee regularly receives extended reviews on various topics, as well as ad-hoc matters in line with evolution of various risks at the Bank. The Committee also discusses new products subject to approval by the Board of Directors, new and revised regulatory directives and guidance with regard to risk management at the Bank, significant debriefs which took place with regard to risk management and any other topic of relevance to risk management at the Bank.

**IT and Technology Innovation Committee** – The Committee discusses and advises the Board of Directors on matters of technology risk strategy, risk appetite, technology risks map (including cloud risks), IT policy and management with regard to technology innovation, including information and cyber security policy and strategy, technology infrastructure at the Bank Group, administration and use of data bases, technology innovation in support of business innovation (including innovation through AI tools), and aligning these with the overall strategy and policy of the Bank Group, including targets, annual work plans and resources, with regard to IT and technology innovation.

**Audit Committee** – The Committee acts to ensure that the Bank maintains the internal control framework, so as to ensure proper conduct of Bank operations. The Audit Committee is tasked with supervising the work of the Bank's Internal Auditor and that of the Bank's Independent Auditor. Thus, the Committee discusses the Bank's financial statements and risks report and makes its recommendation to the Board of Directors with regard to its approval. The Audit Committee discusses work plans of internal audit and of the Independent Auditor, as well as audit reports of the Internal Auditor, the Independent Auditor as well as those of the Supervisor of Banks or any other competent authority. One of the roles of the Audit Committee is to point out faults in business management at the Bank, including those arising from organizational shortcomings, in consultation with the Internal Auditor or with the Independent Auditor and proposes to the Board of Directors ways to amend them.

**Credit Committee** - The Committee is tasked with approval of credit applications which exceed the limits specified in the credit policy and reporting of utilization of its authority to exceed guidelines set forth in the credit policy. The Committee also discusses credit control reports and current credit reports, as well as general credit-related topics, including aggregate reports on developments in the credit portfolio and on monitoring and control processes applied to the Bank's credit portfolio, which are part of the first and second lines of defense.

**Remuneration Committee** – The Committee discusses and makes recommendations to the Board of Directors on remuneration policy for officers and employees. The committee also approves the terms of office and employment of officers (prior to approval by the Board of Directors).

**President & CEO** – responsible for on-going management of Bank operations, subject to policies set by the Board of Directors and subject to guidance from it, in particular with regard to implementing the Bank's strategy and business plans. In this regard, the President & CEO is responsible for management of all risks at the Bank, for leadership of management and risks managers in comprehensive and integrative management of risks and implementation of an effective internal controls system.

The Bank President & CEO receives regular, current reviews and reports at least about the Bank's risk profile in such layout and timing as stipulated by resolutions of the Bank's Board of Directors and in conformity with Proper Conduct of Banking Business Directives. The Bank President & CEO is responsible for reporting to the Board of Directors, in conformity with the outline specified in Bank procedures, including reporting concerning risk management by the Bank and, in particular, any unusual events and/or deviations from the risk appetite.

**Bank management** – 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's organizational structure is supportive of achieving the Bank's business targets while enabling appropriate risk management and control processes.

# Risks Report

## As of December 31, 2025

The Bank operates risk management committees at all management levels. These committees act as professional management forums, designed to foster discussion of issues related to risks management and control and to promote the necessary moves for on-going upgrade of the Bank's risks management framework.

Chief management committees include: The Management Forum, Senior Credit Committee, the Asset and Liability Management Committee, the Overseas Affiliates Committee, the Management Committee for Operational Risk Management, the Management Committee for Risk Management, which discusses *inter alia* the quarterly Risks Document, steering committees on key technology and other matters having significant effect on the Bank. The CRO and other representatives from the Risks Management Division are members of these committees, operating in normal times and at times of emergency.

**The CRO** – The Manager, Risks Management Division serves as the Bank's Chief Risks Officer (CRO) and is responsible for the risk management and control function and for the Bank's risk management framework. The Risks Management Division is a key foundation of the Bank's second line of defense, acts independently of the risk-taking business units. The Division is involved in real time in all processes and lines of operation at the Bank, in order to maximize the business value for the Bank, while maintaining strict, high-quality risk management. The Division's roles and responsibilities are in conformity with principles set forth in Proper Conduct of Banking Business regulation 310 "Risk Management". The CRO has direct access to the Bank President & CEO and to the Bank Board of Directors, and maintains structured, regular reporting processes with these entities. The CRO is responsible for maintaining adequate levels of risk management and controls at the Bank, while maintaining a Bank-wide reporting function, with active involvement in the capital planning process and ensuring that all processes are followed to ensure that the Bank's risk profile is consistent with its risk appetite, as defined by the Board of Directors.

The CRO is responsible for ensuring that effective processes are in place in the Bank for identifying, measuring, monitoring and controlling, mitigating and regularly reporting all risks inherent across all business operations at the Bank, and that the Bank's risk profile is consistent with its risk appetite.

The CRO is responsible for specifying the Bank's risk appetite framework, including leading the creation of all policy documents on risk management and control, challenging material processes and risks at the Bank, including capital planning, principles of the remuneration policy, work plans, and the strategic plan, strategic and technology projects and other significant enterprise-wide processes at the Bank. The CRO is also responsible for ensuring that lesson learning and analysis processes take place following material failure events, and for implementation of the ICAAP procedure (annual internal procedure for assessing capital adequacy).

The CRO is directly responsible for multiple risks associated with internal control risks at the Bank. They are also responsible for control over credit risks and credit analysis, as an independent party to credit approval.

**Chief Compliance Officer** – heads the Compliance Department (reporting to the head of the Risk Management Division), serves as the Bank's Data Protection Officer and their role is to support the Bank's management and Board of Directors in effective management of compliance risk.

The Compliance Officer acts in conformity with a letter of appointment approved by the Board of Directors, to deploy a compliance culture at the Bank, its subsidiaries and overseas affiliates by implementing a Group policy, to deploy a compliance culture across the organization and to supervise implementation of appropriate compliance processes at subsidiaries and affiliates.

The Compliance Officer handles issues of Bank compliance with obligations arising from securities law, economic competition law and privacy protection in general, and in accordance with the enforcement program in particular.

The Compliance Officer is a member of different forums at the Bank, in order to ensure an enterprise-wide view of various compliance aspects, designed to ensure compliance with all statutory provisions. The Compliance Officer also manages the control department, designed to verify compliance of the Bank with statutory and regulatory provisions, as well as the effectiveness of controls applied by the various business and headquarters departments.

**Internal Audit Division** – this is the third line of defense within corporate governance for risks management, reporting directly to the Bank Board of Directors and acting to test the effectiveness of the internal control framework at the Bank. This is typically done in retrospect, using various tools in accordance with a multi-annual risk-focused work plan based, *inter alia*, on the outcome of the ICAAP process, Internal Audit reports, audit reports by external parties, as well as inquiries and reviews by various entities at the Bank, including risk surveys. The Audit findings and recommendations are sent to the Chairman of the Board of Directors, Chairman of the Audit Committee, Bank President & CEO, the CRO, the Chief Accountant, the Compliance Officer and to relevant recipients at the Bank and implementation of these recommendations is monitored.

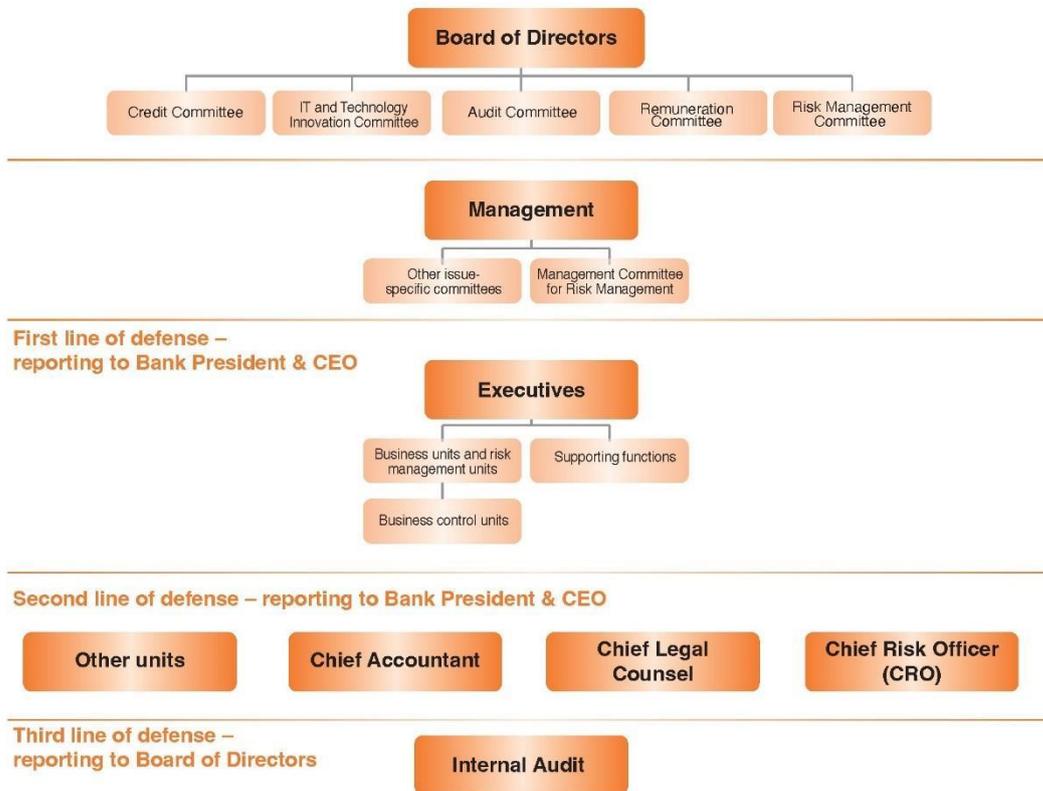
For more information about operations of the Internal Audit Division, see chapter "Corporate governance" in the financial statements.

### **Other forums for risks management and control operating at the Bank**

As part of corporate governance for risks management and in line with the Bank's overall framework policy on risk management and control, the Bank has other forums for risks and capital management and control, including:

- Internal control forum – maintaining integration of between the gatekeepers at the Bank responsible for implementing its internal control framework.
- Capital planning and management forum – monitors the development of Bank capital in view of Bank targets.
- Risks Monitoring Forum (RMF) – diverse forums by specific risk, led by the Chief Risks Officer together with business unit managers, who engage in approval of methodology for risk management, stress scenarios and the outcome thereof, review of generally accepted practice and regulation, model validation and recommendations on implementation, approval of policy documents and procedures and operational risk aspects, including the risk map, risk assessment surveys, material events and lesson learning processes, as well as various other issues arising from risks management and internal controls of each business unit.
- Dedicated compliance-related forums, including cross-border risks management and addressing privacy protection.
- Operational risks steering committee – advisory committee to the CRO on operational risks.
- Cyber and information security steering committee – advisory committee to the CRO on cyber and information security risks.
- Information Leaking Forum focusing on the human factor - a committee in charge of mapping of positions exposed to sensitive information, assessment of the criteria defined for types of sensitive information and for the mapping of employees exposed to sensitive information, and controls implemented to employees identified as such.
- Models Forum – for integrated management of all aspects of model risk management.
- Fraud forum - dealing with overall management of the Bank's fraud risk, identification of significant emerging risk concentrations and formulation of processes for assessment, monitoring and resolution.
- Embezzlement forum - dealing with overall management of the Bank's embezzlement risk, including adequate processes for identifying and addressing embezzlement.
- Credit stress scenarios forum - discusses methodologies and results of credit stress scenarios.
- Dedicated forums for assessment of the credit risk and the adequacy of provisions.
- Forums for monitoring compliance with regulations - the Bank has several dedicated forums for discussing emerging regulations and regulations with business and accounting consequences.
- Forums for reporting and monitoring operations of subsidiaries.
- Forum for new product risk management - monitoring new-product approval processes and the adequacy of the risk assessment in respect thereof.

**Organizational structure for risk management at the Bank:**



## Risk management culture at the Bank

Deployment of an organizational culture for risk management at the Bank, based on the overall risk management framework and on corporate governance supportive of efficient risk management, support risk awareness, identification and handling of evolving risk and informed risk taking so as to ensure that risks are identified and handled in a timely manner.

The Bank constantly acts to develop and reinforce its risks management processes, to create a risks management culture in line with Bank operations and in support of achieving the Bank's business targets. Risks management is an integral part of regular Bank operations and the Risks Management Division is involved in material processes at the Bank in all areas.

The risk management culture at the Bank is reflected, *inter alia*, in these processes:

**Challenging business and strategic processes** – The Risk Management Division challenges the Bank's strategic plan, annual work plans and capital planning, as well as material business and technology projects and processes. The Division also monitors heat maps to identify major risks associated with operations of the various divisions, monitor and mitigate such risks and their impact on realization of business plans.

**Approval process for new product or activity at the Bank** (including significant changes to existing product / activity, new operational processes or material updates to existing processes) – this process is designed to ensure that all new products are channeled for approval in the relevant approval tracks in line with the risk level up to the level of the Board of Directors, that the range of risks associated with operating the new product would be identified and managed, and that such risks are appropriate for the Bank's business operation and risk appetite.

**Risk surveys** – periodic processes whereby risk surveys are conducted in various areas: operational, technological, cyber and compliance. These surveys are supporting tools for dynamic, active management of the risks map.

**Lesson-learning processes and ad-hoc tests** – A continuous internal process maintained by the various lines of defense for the purpose of drawing lessons and conducting ad-hoc tests, due to the materialization of internal and/or external failure events, including events which occurred in the local and global banking system.

**Reporting system** – Reporting and communicating risk-related information is a key pillar of the Bank's capacity to manage its risks. The Bank has a specified set of reports, in the general framework policy on risk management and control, specifying the required reports under normal conditions, in case of an exceptional event and under stress (emergency) conditions between all lines of defense at the Bank, as needed.

**Quarterly risks document** – 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, including new regulations.

**Operations at times of emergency** – The Bank has policy documents and formalized procedures to ensure business continuity at times of emergency, including system-wide emergencies, and Bank-specific events. The Bank has in place a procedure covering business activity upon the occurrence of a financial stress event in the markets, and dedicated emergency forums, which are activated by the Bank's Risk Managers upon the occurrence, or potential occurrence, of such events associated with the credit, market and liquidity risks. A detailed dedicated emergency plan is in place, which covers various liquidity-related scenarios.

**Training** – Maintaining a comprehensive training system, consisting of different means, including: remote eLearning kits, custom training with regard to risks management, regulation and internal controls, dedicated seminars etc. In addition, constant contact is maintained between Risks Managers at headquarters and field units, in particular with representatives of each Bank unit appointed to be responsible for various risk areas, to disseminate operating principles and to communicate information to the various units.

**Information systems** – risks management and monitoring using controlled, computer-based systems with minimal dependence on manual processes and with near-real time update frequency. The Bank has measurement systems used to estimate all material risks to which the Bank is exposed, as well as IT systems to support risks monitoring and reporting.

**Controls** – a set of effective controls, consisting of efficient and independent control processes.

**Code of Ethics** - The Bank has a Code of Ethics in place, which was approved by Bank management and Board of Directors. The top values in the Code of Ethics are: Reliability, loyalty to customers, human dignity, transparency, commitment to the Bank, fairness, excellence, professionalism and social / community responsibility. The Bank operates the Ethics Committee convenes monthly, consists of representatives from HQ units and branches, and acts to regularly deploy the Code of Ethics by publishing dilemmas to Bank staff, discussing dilemmas raised from the field and reviewing the deployment process of the Code of Ethics.

**Risk management and control policy documents** – In 2025, Bank management and the Bank's Board of Directors discussed and approved all of the Bank's risk management and control policy documents. Risk management and control policy documents – These specify, inter alia, the corporate governance for risk management, roles and responsibilities of management, the Board of Directors, the Chief Risks Officer, the Risks Management Division and the business units, as well as the risk appetite, reporting and controls for the various risks. The policy documents are prepared by the risk manager in the first line of defense and by the Risk Management Department; an independent opinion issued by the Risk Management Department is appended to all policy documents as part of the approval process by the Bank's Board of Directors and management.

Risk management policy and procedures at the Bank, as listed in this chapter, apply to all risk types and to all Bank units. Later on in this report, we present further references, as the case may be, to various risk types.

### **Deployment, limitation and enforcement of risk culture**

The Bank has various action options and means to reinforce, deploy and enforce the risk culture across the different lines of defense, including, *inter alia*:

- Maintain regular contact between business functions in the first line of defense and risk management functions in the second line of defense.
- Regular reporting procedures in case of materialization of unusual events, including approaching the limits and deviation from the risk appetite. These procedures are in addition to the policy documents and include, other than the reporting chain, the management process for handling such events.
- Regular, structured mapping of all Bank of Israel regulations on various topics: laws, regulation and directives of other regulators, the person in charge and the various lines of defense in charge of proper handling of all of the risks, including infrastructure to control compliance with these directives.
- Maintaining regular contact between risks management functions in the second line of defense, and the internal audit function, which is the third line of defense, in the Internal Control Forum and by specific discussions to identify and discuss lateral risk concentrations and material specific events. Internal Audit conducts, as part of the organized Audit work plan, specific audit of activity of the Risks Management Division, including over the ICAAP process, as part of the independent overview. These include a review of the effectiveness of control, deployment of the organizational culture across the lines of business, processes for handling events and so forth.
- Compliance Officer's Report – is discussed every quarter by management and by the Board of Directors' Audit Committee, every six months by the Risk Management Committee, and annually by the Board of Directors' plenum; the report highlights key activities in various compliance areas, including addressing privacy protection, compliance with securities laws and the Economic Competition Law. This report is from a Group-wide viewpoint and combines operations of the Bank, its subsidiaries and overseas affiliates.
- The Chief Risks Officer conducts an annual discussion, in person, with the Board of Directors' Audit Committee.
- The Compliance Officer conducts an annual discussion, in person, with the Board of Director's Audit Committee.
- The Chief Accountant conducts an annual discussion, in person, with the Board of Directors' Audit Committee.
- The Chief Legal Counsel conducts an annual discussion, in person, with the Board of Director's Audit Committee.
- The Auditor conducts an annual discussion, in person, with the Board of Director's Audit Committee.

### **Hedging and risk mitigation**

The organizational culture for risks management and corporate governance at is a significant mean for risks mitigation at the Bank. Proper corporate governance supports the risks management culture, ensuring that efficient, comprehensive processes are in place for risks management and control at the Bank to ensure its stability over time. A high-quality risk management culture and regular communications processes between the three lines of defense are key features of appropriate risk management governance. All risks to which the Bank is exposed are regularly and effectively managed and monitored by the relevant units.

The Bank's business model is based on a structured business strategy that includes specification of principles for the Bank's overall risk appetite. The Bank is acting in conformity with the outline of a three-year strategic plan for 2025-2027. Bank management regularly monitors the achievement of targets of the strategic plan and work plan and material changes in the macroeconomic environment and competition environment, which may affect the achievement of the strategic plan.

The Risk Management Division maintains regular processes to challenge the work plans and achievement of strategic plan targets. Rapid evolution of technological developments and customer behavior in recent years has been changing the landscape of the financial world in terms of increased competition. These changes impact the survivability and nature of banks in future. They also that the potential to impact the Bank's business model in the long term.

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

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

### Scope and key features of risks measurement system

In general, the Bank manages and monitors risks using controlled, computer-based systems with minimal dependence on manual processes and with near-real time update frequency. The Bank has measurement systems used to estimate all material risks to which the Bank is exposed, as well as IT systems to support monitoring and reporting regarding each of the risks.

### Reporting risk information to the Board of Directors and to management

- The risk management culture at the Bank includes the set of reports by various entities which comprise the risk management system, including: The Bank Board of Directors, Bank President & CEO and management, as well as the Bank's three lines of defense.
- Specific policy documents for each risk faced by the Bank, including reference to the set of reports based on these principles, and based on principles of the reporting system at the Bank, as follows: Pre-defining the reporting mechanisms for the different levels, maintaining effective communication processes between different levels, and effective information sharing through reporting mechanisms, which were set in accordance with the nature of the risk and the needs of the Board of Directors and management, so as to allow them to make informed decisions.
- Reporting information in a comprehensive, complete and accurate manner, at the stipulated frequency and format.
- Individual reports on the individual risk level, and overview reports.
- Providing disclosure with regard to significant assumptions underlying the report, as well as any limits on risk estimates.
- Regular review of the volume and quality of information received by the Board of Directors, to ensure that risk-related information is conveyed in a concise, clear manner.
- Current reports – current reporting processes at a specified frequency, as specified in risk control and management policy documents and in operating procedures for the various risks. These reports include, *inter alia*, reports for the quarterly risks document for the Board of Directors, reports for Bank management, reports for the Board of Directors' Risk Management Committee and for the Board plenum, as well as reports for various forums involved in risk management and control.
- The Bank's quarterly risks document is the main reporting tool by Bank management with regard to the risk profile given the risk appetite. This document presents a qualitative and quantitative view over development of all performance and risk benchmarks.
- The ICAAP document, which is presented annually and submitted to the Bank of Israel, includes qualitative and quantitative comments with regard to all risk aspects at the Bank, and adequacy of capital assigned against such risks, as described later in this chapter.
- Exception reporting – material exceptional events, deviating from normal operations, which may impact Bank operations or reputation.
- Emergency reporting:
  - Business continuity – When the Bank is required to apply its Business Continuity Plan (BCP), the system is required to be used in line with the existing action plan at the Bank, including unique reporting chains, customized for the situation, as specified in the Bank's BCP policy.
  - Financial emergency – a condition requiring special measures due to unusual changes in financial activity and/or financial or other unusual event, which may impact the markets, increasing the potential exposure to loss by the Bank due to various risks, should they materialize.

## Use of stress scenarios in risk management

Stress scenarios are risk management tools 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.
- Assessing capital adequacy.
- Improvement in the Bank's preparedness to a scenario in which a stress event materializes.

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 geopolitical developments in the local and global business environment. Moreover, in accordance with guidance from the Supervisor of Banks, the Bank applies a uniform systemic stress scenario. The scenarios are calculated based on various frequencies (daily/monthly/quarterly/annual), as the case may be. Assumptions for the scenario, its methodology and outcome are discussed and approved by appropriate forums and committees.

## Systemic scenario – uniform stress test

In line with customary world-wide practice, the Supervisor of Banks 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 the banking system is exposed to.

In May 2025, the Bank submitted to the Bank of Israel the results of the stress scenario for 2025 based on December 2024 data. The scenario assumes that geopolitical conditions in Israel deteriorated and that the war continues in several fronts. Due to high levels of uncertainty, business activity and importation to and exportation from Israel are adversely affected to a significant extent. Economic activity in Israel is adversely affected, GDP contracts, unemployment rates rise and local financial markets suffer. Israel's risk premium continues to increase and its credit rating is downgraded again below investment grade. Inflation is rising sharply and the Bank of Israel is raising interest rates at a high rate.

According to the results of the Bank of Israel's stress scenario, the Bank retains its robustness and stability throughout the scenario period, while maintaining adequate regulatory capital and leverage ratios.

## ICAAP process (Internal Capital Adequacy Assessment Process)

ICAAP is a process for self-assessment of capital needs (assessment of capital in Pillar 2 is implemented in conformity with the Bank of Israel's guidance based on the Basel Committee 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, both in the ordinary course of business and under stress scenarios.

Furthermore, Pillar 2 includes the annual risk assessment process - the Risk Assessment System (RAS) for each of the Bank's material risks. The RAS process is a uniform and methodological process adapted to regulatory requirements and comprising qualitative assessment processes, in which the overall risk levels, risk management quality and risk profile for all material risks at the Bank are specified; the process also includes the identification of risk management processes which should be strengthened and the identification of the Bank's material risk concentrations.

The ICAAP paper includes condensed qualitative and quantitative analysis of all of the Bank's risks from a Group perspective, the Bank's the capital targets, overall risk profile for 2025, developments during the year in accordance with the own-risk-assessment process, assessment of the impact of anticipated developments on various risks and presentation of the Bank's overall risk map.

## **Risks Report**

As of December 31, 2025

Capital planning is carried out for a period of three years, and 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, which 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 allocation of capital is calculated in the ordinary course of business and under stress scenarios. The stress scenarios are intended to ensure that the Bank has sufficient capital cushions to survive even stressed scenarios, with high impact and very remote likelihood of materializing, and that the Bank is in compliance with the limit on Tier I equity ratio for the stressed scenario – minimum Tier I equity ratio of 6.5%.

The annual self-assessment process at the Bank to review capital adequacy indicates that the Bank has sufficient capital to face the various risks associated with Bank operations, both in the normal course of business and under stress scenarios throughout the planning period. Furthermore, the Bank's total available capital is higher than the capital required under ICAAP even after the implementation of stress scenarios and a threat scenario; the Tier I capital ratio under a threat scenario, for each year of the scenario period, does not drop below 6.5%.

The ICAAP document is extensively discussed and approved by Bank management, Board committees (Risks Management Committee and Audit Committee) and by the Board of Directors plenum. The 2025 ICAAP document was submitted to the Bank of Israel at the beginning of 2026.

## Risk factor severity

The Bank has specified a framework for risks management and control by the Group, which includes mapping of material risks, and s 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 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 and examination of their materiality level is reviewed as part of the ICAAP process (a self-assessment of capital adequacy) in the annual assessment process, the RAS (Risk Assessment System), which is a uniform methodological process adapted to regulatory requirements, in which the overall risk levels, management quality and risk profile for all material risks at the Bank are specified. This is based on risk benchmarks, qualitative parameters and subjective assessments.

Furthermore, on a quarterly basis, in line with results of the Bank's annual ICAAP process, up-to-date risk assessments are carried out for each of the risks in accordance with the actual risk profile, which include quantitative and qualitative indices, developments in the business environment and macroeconomic environment, and the existence of appropriate management and monitoring processes and emergency plans for dynamic, rapid response designed to minimize damage upon materialization of events. The up-to-date risk assessments are extensively discussed by Bank management and Board of Directors.

Despite the improvement in economic parameters and in the security situation following the ceasefire, and despite the fact that no material changes were observed in the different risk metrics, the Bank has not changed most of its risk assessments, and they reflect the uncertainty as to the stability of the security situation in view of the ceasefires and their effect on the economic activity, with the exception of a decline in the risk level regarding borrower and collateral quality to medium, in view of further rebound in economic activity and the stability of the credit quality metrics.

Set forth below is a mapping of the risk factors and their potential impact on the Bank Group:

| <b>Risk factor</b>  | <b>Effect of the risk factor</b> |
|---|----------------------------------|
| Overall effect of credit risks <sup>(1)</sup>                     | Medium                           |
| Risk with respect to borrower and collateral quality              | Medium                           |
| Risk from industry concentration <sup>(1)</sup>                   | 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 <sup>(2)</sup>                     | Low-Medium                       |
| Interest risk   | Medium                           |
| Inflation risk  | Low-Medium                       |
| Foreign currency risk   | Low                              |
| Liquidity risk  | Low-Medium                       |
| Overall effect of operational risk                                | Medium                           |
| Cyber and information security risk                               | Medium-High                      |
| Model risk  | Low-Medium                       |
| IT risk   | Medium                           |
| Legal risk  | Low-Medium                       |
| Compliance and regulatory risks <sup>(3)</sup>                    | Low-Medium                       |
| Reputational risk <sup>(4)</sup>                                  | Low                              |
| Strategic business risk <sup>(5)</sup>                            | Low-Medium                       |
| Business and geopolitical environment risk <sup>(6)</sup>         | Medium-High                      |

(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 risk embodied in the capital planning and management process.

(6) Business and geopolitical environment risk - reflects exogenous risks arising from the business environment in which the Bank operates.

## Major and emerging risks

The Bank's business activity exposes the Bank to various financial and non-financial risks, whose materialization has potential to impact the Bank's business 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, 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, which may materialize over the longer term, with uncertainty about their nature and impact on the Bank. The risk mapping at the Bank is regularly reviewed to ensure it covers all risks associated with the Bank's business activity, or influenced by market conditions and from regulatory requirements.

1. **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.

The strategic business level remains unchanged, at a low-medium level. Strategic business risk incorporates all of the Bank's business operations, also reflecting the risk in the Bank's business environment. The Bank maintains appropriate safety margins for minimum capital and leverage ratios.

On June 4, 2025, the Bank's Board of Directors approved a new strategic plan for 2025-2027 (hereinafter - the "Plan Period"). For further details regarding the strategic plan and the assumptions and data the plan relies upon, which may not materialize or materialize in a different manner and therefore cause the new strategic plan not to materialize or materialize in a different manner ("Forward-looking information protection"), see immediate report of June 5, 2025 (Ref. No.: 2025-01-040290).

2. **Business and geopolitical environment risk** - reflects exogenous risks arising from the business environment in which the Bank operates and the uncertainty as to the security, economic and geopolitical conditions in Israel. The business and geopolitical environment risk is assessed as medium-high and also includes the risk involving potential effects on anti-banking regulation, and the effects of the macroeconomic risk, regarding which there is uncertainty as to the extent of the impact of the economic and security developments in Israel.

**Macro-economic risk** – The Bank's activity is affected by 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 the Bank's activity. In the fourth quarter of 2025 the Israeli economy continued to recover despite geopolitical effects. According to a publication of the Bank of Israel Research Division of January 2026, in 2025 GDP growth is expected to stand at 2.8% and in 2026 GDP is expected to grow by 5.2%. In 2025, annual inflation stands at 2.6%. In 2026, annual inflation is expected to subside to 1.7%. In November 2025, the Bank of Israel has cut its interest rate by 0.25% to 4.25% (the first interest-rate cut since the beginning of 2024), and in January 2026 it cut the interest rate again to 4%. In view of the decline in the geopolitical risk, in the fourth quarter of 2025 the shekel appreciated against the dollar, and at the end of 2025 it was traded at around NIS 3.2 per dollar. The Bank regularly assesses the macroeconomic risk, monitors the potential effects on the credit portfolio and on sectors with high sensitivity, and modifies the credit policy accordingly. Furthermore, the collective provision is increased in respect of macroeconomic uncertainty.

**Regulatory risk** – reflects the risk of legislation, including legislation in progress, in core banking areas, as well as new regulation and regulatory expectations of regulatory entities, whether in progress or completed, which may potentially impact core banking operations.

3. **IT 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 and Bank needs, multitude of banking regulatory requirements and the need to implement technological tools within a short timeframe. The Technology Division operates to support normal Bank operations and to provide 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. The risk level remained medium.

4. **Information security and cyber defense risk** - a risk arising from deficiencies in protection of the Bank's computer systems and information stored therein. 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 Bank's information security and cyber team operates fully and continuously, 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.

Over the course of the fourth quarter of 2025, the assessment of information security and cyber risk levels remained unchanged at medium-high. In view of the war with Iran and attacks on Iranian cyberspace, and in particular the damage to the Iranian banking system, a global increase in threat factors has been identified, and primarily, an increase in Iran's motivation to potentially conduct cyberattacks on the Israeli banking-financial system, which have the potential of being successful. The Bank constantly enhances and improves its control and protection function and monitors developments in risk aspects.

5. **Compliance and regulatory risk** – Bank business operations are subject to regulation.<sup>1</sup> Compliance risk is the risk of the imposition of 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 the provisions of the Privacy Protection Law, 1981 and regulations promulgated thereunder. As part of the Bank's addressing this issue, the Chief Compliance Officer was appointed as the officer in charge of privacy protection.

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 and regulatory risk remained Low-Medium. The Bank applies the current and new regulatory provisions. The Bank continues to closely monitor and mitigate all aspects of the risks: Compliance (including conduct and privacy-protection compliance), AML and terror financing risk. The Bank operates in accordance with a specific policy regarding the management of cross-border risks and the implementation of international sanctions, based on the international banking framework for the implementation of cross-border enforcement rules.

6. **Environmental risk and climate risk** – such risks are part of ESG (Environment, Society and Governance) risks - emerging risks which are characterized with greater changes compared to other risks over time.

**A. Environmental risks** are risk deriving from the Bank's potential exposure to loss due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazards (such as air and water pollution, soil contamination), regulation concerning environmental protection, or due 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.

**B. Climate risks** are 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.

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 completing its preparations for the application of Proper Conduct of Banking Business Directive 345 "Principles for the Effective Management of Climate-Related Financial Risks", published by the Supervisor of Banks in June 2023, which will come into effect in June 2026.

For more information regarding the management of these risks, see the Environment, society and governance chapter to the 2025 Report of the Board of Directors and Management and the 2024 ESG report, which includes the report of the Task Force on Climate-Related Financial Disclosures (TCFD), which presents the Bank's preparations for effective management of climate risks.

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

# Risks Report

As of December 31, 2025

## Overview of weighted risk assets (OV1) (NIS in millions)

|  | Risk weighted assets |                    | Minimum capital requirements <sup>(1)</sup> |
|--|----------------------|--------------------|---|
|  | December 31, 2025    | September 30, 2025 | December 31, 2025                           |
| Credit risk (standard approach) <sup>(2)</sup>                         | 306,470              | 301,476            | 38,309                                      |
| Counter-party credit risk (standard approach)                          | 3,887                | 3,622              | 486   |
| Credit risk value adjustment (CVA) <sup>(3)</sup>                      | 1,536                | 1,564              | 192   |
| Settlement risk  | 382                  | 392                | 48  |
| Amounts lower than discount threshold (subject to 250% risk weighting) | 5,566                | 5,822              | 696   |
| <b>Total credit risk</b>   | <b>317,841</b>       | <b>312,876</b>     | <b>39,731</b>                               |
| Market risk (standard approach)  | 2,126                | 2,171              | 266   |
| Operational Risk <sup>(4)</sup>  | 24,188               | 24,158             | 3,023                                       |
| <b>Total</b>   | <b>344,155</b>       | <b>339,205</b>     | <b>43,020</b>                               |

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

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

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

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

# Risks Report

As of December 31, 2025

## Additional information about weighted risk assets

Below is the movement in weighted risk assets during the period, for each type of weighted risk asset (NIS in millions):

|  | For the year ended<br>December 31 |                |
|--|-----------------------------------|----------------|
|  | 2025                              | 2024           |
| <b>Movement in credit risk assets</b>                                |                                   |                |
| Balance as of January 1  | 282,287                           | 252,842        |
| Change in credit exposure risk assets                                | 28,014                            | 18,866         |
| Change in securities exposure risk assets                            | 466                               | 313            |
| Change in derivatives exposure risk assets                           | (421)                             | (64)           |
| Change in off-balance sheet exposure risk assets                     | 6,695                             | 5,745          |
| Change in CVA  | 115                               | 139            |
| Downgrading of the State of Israel's rating                          | -                                 | 3,679          |
| Other effects  | 685                               | 767            |
| <b>Credit risk assets at end of period</b>                           | <b>317,841</b>                    | <b>282,287</b> |
| <b>Movement in operating risk assets</b>                             |                                   |                |
| Balance as of January 1  | 23,402                            | 20,641         |
| Change in revenues from financing operations (including commissions) | 38                                | (33)           |
| Change in non-interest financing revenues                            | (142)                             | 46             |
| Change in gross revenues of subsidiaries                             | 890                               | 2,748          |
| <b>Operating risk assets at end of period</b>                        | <b>24,188</b>                     | <b>23,402</b>  |
| <b>Movement in market risk assets</b>                                |                                   |                |
| Balance as of January 1  | 1,675                             | 1,957          |
| Change in interest risk – general market risk                        | 453                               | 9              |
| Change in basis risk   | (21)                              | (422)          |
| Change in equity risk  | 15                                | 147            |
| Change in options risk   | 4                                 | (16)           |
| <b>Market risk assets at end of period</b>                           | <b>2,126</b>                      | <b>1,675</b>   |

## Capital and leverage

### Composition of supervisory capital

|   | December 31,<br>2025 | December 31,<br>2024 |
|---|----------------------|----------------------|
| <b>Tier I equity: Instruments and retained earnings</b>           |                      |                      |
| 1   | 3,784                | 3,726                |
| 2   | 30,906               | 27,782               |
| 3   | 75                   | (215)                |
| 5   | 646                  | 589                  |
| <b>6</b>  | <b>35,411</b>        | <b>31,882</b>        |
| <b>Tier I equity: Supervisory adjustments and deductions</b>      |                      |                      |
| 8   | 87                   | 87                   |
| 9   | -                    | 20                   |
| 10  | -                    | -                    |
| 11  | -                    | 5                    |
| 14  | 8                    | 11                   |
| 21  | -                    | -                    |
| 26  | 77                   | (204)                |
| 26.C  | -                    | -                    |
| <b>28</b>   | <b>172</b>           | <b>(81)</b>          |
| <b>29</b>   | <b>35,239</b>        | <b>31,963</b>        |
| <b>44</b>   | <b>-</b>             | <b>-</b>             |
| <b>45</b>   | <b>35,239</b>        | <b>31,963</b>        |
| <b>Tier II capital: Instruments and provisions</b>                |                      |                      |
| 46  | 1,914                | 2,188                |
| 47  | -                    | -                    |
| 48  | 4,137                | 3,380                |
| 49  | -                    | -                    |
| 50  | 3,620                | 3,529                |
| <b>51</b>   | <b>9,671</b>         | <b>9,097</b>         |
| <b>Tier II capital: Deductions</b>                                |                      |                      |
| <b>57</b>   | <b>-</b>             | <b>-</b>             |
| <b>58</b>   | <b>9,671</b>         | <b>9,097</b>         |
| <b>59</b>   | <b>44,910</b>        | <b>41,060</b>        |
| <b>60</b>   | <b>344,155</b>       | <b>307,364</b>       |
| <b>Capital ratios and capital preservation cushions</b>           |                      |                      |
| 61  | 10.24%               | 10.40%               |
| 62  | 10.24%               | 10.40%               |
| 63  | 13.05%               | 13.36%               |
| <b>Minimum requirements stipulated by the Supervisor of Banks</b> |                      |                      |
| 69  | 9.60%                | 9.60%                |
| 70  | 9.60%                | 9.60%                |
| 71  | 12.50%               | 12.50%               |

# Risks Report

As of December 31, 2025

|   | December 31,<br>2025 | December 31,<br>2024 |
|---|----------------------|----------------------|
| <b>Amounts lower than the deduction threshold (before risk weighting)</b>   |                      |                      |
| 72 Investments in capital of financial corporations (other than banking corporations and subsidiaries thereof), up to 10% of ordinary share capital issued by the financial corporation, which is below the amortization threshold      | 56                   | 58                   |
| 73 Investments in Tier I equity of financial corporations (other than banking corporations and subsidiaries thereof), over 10% of ordinary share capital issued by the financial corporation, which is below the amortization threshold | 4                    | 3                    |
| 75 Deferred tax assets created due to temporary differences, which is below the amortization threshold  | 2,223                | 2,311                |
| <b>Cap for inclusion of provisions in Tier II</b>   |                      |                      |
| 76 Provision qualifying for inclusion in Tier II with regard to exposures under the standard approach, before application of the cap  | 3,620                | 3,668                |
| 77 Cap for inclusion of provision in Tier II with regard to exposures under the standard approach   | 3,973                | 3,529                |

For more information about the link between the balance sheet and supervisory capital components, see Addendum A below.

# Risks Report

## As of December 31, 2025

Report on movements in supervisory capital components during the period, including changes to Tier I equity, Tier I capital and Tier II capital (NIS in millions):

|  | December 31,<br>2025 | December 31,<br>2024 |
|--|----------------------|----------------------|
| <b>Tier I capital</b>  |                      |                      |
| Balance as of January 1  | 31,963               | 28,434               |
| <b>Changes to capital components:</b>  |                      |                      |
| Issuance of ordinary share capital and share premium   | 84                   | 15                   |
| Change in capital reserve from benefit from share-based payment transactions   | (25)                 | 35                   |
| Net profit for the period  | 5,630                | 5,455                |
| Dividends  | (2,506)              | (1,869)              |
| Adjustments from translation of financial statements of associates   | -                    | -                    |
| Capital reserve from securities available for sale   | 261                  | 128                  |
| Capital reserve from cash flows hedging  | (5)                  | 2                    |
| Capital reserve with respect to employee rights  | 34                   | 65                   |
| Others, including regulatory adjustments   | -                    | -                    |
| Non-controlling interests  | 57                   | 22                   |
| <b>Changes to effect of supervisory adjustments and deductions</b>   |                      |                      |
| Goodwill and intangible assets   | 20                   | 20                   |
| Accumulated other comprehensive income with respect to cash flows of items not listed at fair value on the balance sheet | 5                    | (1)                  |
| Accumulated gains or losses from changes to fair value of liabilities, arising from change to the Bank's credit risk     | 3                    | 3                    |
| Others   | (282)                | (346)                |
| <b>Balance as of end of period</b>   | <b>35,239</b>        | <b>31,963</b>        |
| <b>Tier II capital</b>   |                      |                      |
| Balance as of January 1  | 9,097                | 8,366                |
| Deduction of equity instruments  | (182)                | 137                  |
| Changes to group provisions for credit losses before related tax effect  | 91                   | 368                  |
| Issue of equity instruments  | 665                  | 1,463                |
| Redemption of bonds with contingent conversion   | -                    | (1,237)              |
| <b>Balance as of end of period</b>   | <b>9,671</b>         | <b>9,097</b>         |

### Supervisory requirement

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

Tier I capital includes equity attributable to equity holders of the Bank and the interest of external shareholders in equity of subsidiaries (excess capital at subsidiaries is not taken into account).

Tier I capital includes supervisory adjustments and deductions from capital – goodwill, investments in capital components of financial institutions, cumulative other comprehensive income with regard to cash flow hedges for items not presented at fair value on the balance sheet adjustments with respect to liabilities for derivative instruments, due to change in the Bank's credit risk (DVA) and other supervisory adjustments and deductions.

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of December 31, 2025, the Bank had no capital instruments included in additional Tier I capital.

Tier II capital consists of a group provision for credit losses and equity instruments which fulfill the specified requirements.

Restrictions on capital structure:

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

### **Bank approach to capital adequacy assessment**

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

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

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

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

### **Minimum capital ratio requirement**

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

As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5%.

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

Accordingly, the Bank's required minimum Tier I capital ratio and minimum total capital ratio as of the report date are 9.60% and 12.50%, respectively (to which adequate safety margins will be added).

### **Capital planning and management**

The Bank manages the capital adequacy ratio so as to comply with minimum capital requirements of the Supervisor of Banks. The Bank's capital ratios are subject to changes due to the following, among other things:

- Growth in business activity.
- Actuarial changes due to changes to interest rates used to calculate Bank liabilities with respect to employee benefits, or other actuarial assumptions such as: mortality rates, retirement rates and so forth.
- Impact of changes to capital reserves from bonds available for sale due to changes in interest rates.
- Impact of changes to inflation and exchange rates on the Bank's risk asset balances.
- Impact of changes to the State of Israel's credit rating on the risk weighting assigned to Israeli corporations, which is based on the State rating.
- The effect of the credit rating of third parties, which insure specific Bank credit risks.
- Regulatory changes which may affect the capital or the risk assets.

The Bank regularly monitors its capital adequacy and leverage ratio, in order to ensure compliance with requirements of the Supervisor of Banks, as well as to prepare in advance to respond to evolution of risk assets and capital requirements at the Bank. To this end, the Bank's Board of Directors has specified a policies document which set the principles required for management of the capital adequacy ratio and the leverage ratio, as well as the Bank's capital targets ("risk appetite"), which provide a safety margin beyond the minimum regulatory requirements for capital and leverage. The policy document specifies the safety margins for planning, as well as the required reports and actions to be taken should the capital ratio drop below the minimum required. Capital management and planning is conducted by a special forum headed by the Manager, Finance Division (CFO) and including the Manager, Risks Management Division (CRO), Manager, Financial Information and Reporting Division (Chief Accountant) and managers of corporate divisions at the Bank. On-going capital planning is based on the assumptions in the Bank's work plan, subject to capital and leverage targets and to the dividend distribution policy.

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.

The Risks Management Division conducts processes to challenge the capital planning which review, inter alia, the appropriateness of safety margins used in capital planning; the outcomes of these processes are brought for discussion by the Capital Management Forum, by Bank management and by the Board of Directors' Risks Management Committee.

# Risks Report

As of December 31, 2025

Below is analysis of the impact of changes on Tier I equity ratio as of December 31, 2025:

|                          | Impact of change by NIS<br>100 million in<br>Tier I equity | Impact of change by NIS<br>1 billion in total<br>risk assets |
|--------------------------|--|--|
| Bank (consolidated data) | 0.03%  | 0.03%  |

## 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. 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 not solely controlled by the Bank. For more information about issue and redemption of CoCo subordinated notes, see Note 25 to the financial statements.

For more information see Note 25 to the financial statements.

## Leverage ratio

The Bank applies the rules set in Proper Conduct of Banking Business Directive 218 with regard to leverage ratio, which adopts the Basel Committee's recommendations on leverage ratio.

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 a 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.

On September 14, 2025, the Supervisor of Banks published a circular, which extended the relief by one further year through December 31, 2026.

The Bank's leverage ratio as of December 31, 2025 is 5.88%, compared to 6.04% as of December 31, 2024.

### Comparison of assets on balance sheet and exposure measurement for leverage ratio (NIS in millions):

|  | NIS in millions            |                            |
|--|----------------------------|----------------------------|
|  | As of December 31,<br>2025 | As of December 31,<br>2024 |
| Total assets according to consolidated financial statements        | 551,173                    | 485,643                    |
| Adjustments with respect to financial derivatives                  | 3,194                      | 3,908                      |
| Adjustments with respect to off-balance sheet items <sup>(1)</sup> | 46,948                     | 40,402                     |
| Other adjustments  | (2,181)                    | (355)                      |
| <b>Exposure for leverage ratio</b>                                 | <b>599,134</b>             | <b>529,598</b>             |

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

# Risks Report

As of December 31, 2025

## Composition of exposures and leverage ratio (NIS in millions):

|   | As of December 31,<br>2025 | As of December 31,<br>2024 |
|---|----------------------------|----------------------------|
| <b>On-balance sheet exposures</b>   |                            |                            |
| Assets on balance sheet   | 532,590                    | 473,600                    |
| Amounts with respect to assets deducted to determine Tier I capital   | (87)                       | (107)                      |
| <b>Total on-balance sheet exposures</b>   | <b>532,503</b>             | <b>473,493</b>             |
| <b>Exposures with respect to derivatives</b>  |                            |                            |
| Subrogation cost for all transactions with respect to derivatives   | 1,958                      | 1,841                      |
| Additional amounts with respect to future potential exposure for all transactions with respect to derivatives   | 7,364                      | 7,536                      |
| Gross-up of collateral provided with respect to derivatives, deducted from assets on the balance sheet in conformity with Public Reporting directives   | -                          | -                          |
| Deductions of receivable assets with respect to variable cash collateral provided in derivatives transactions   | -                          | -                          |
| Exempt central counter-party leg of commercial exposures disposed by the customer   | -                          | -                          |
| Adjusted effective par amount of credit derivatives written   | -                          | -                          |
| Adjusted effective par offsets and deduction of additions with respect to credit derivatives written  | -                          | -                          |
| <b>Total exposure with respect to derivatives</b>   | <b>9,322</b>               | <b>9,377</b>               |
| <b>Exposure with respect to securities financing transactions</b>   |                            |                            |
| Gross assets with respect to securities financing transactions (without offsets), after adjustment for transactions accounted for as an accounting sale | 10,361                     | 6,326                      |
| Offset amounts of cash payable and cash receivable from gross assets with respect to securities financing transactions                                  | -                          | -                          |
| Credit risk exposure for central counter-party with respect to securities financing assets  | -                          | -                          |
| Exposures with respect to transactions as agent   | -                          | -                          |
| <b>Total exposure with respect to securities financing transactions</b>   | <b>10,361</b>              | <b>6,326</b>               |
| <b>Other off-balance sheet exposures</b>  |                            |                            |
| Off-balance sheet exposure in par value, gross  | 156,694                    | 134,565                    |
| Adjustments with respect to conversion to credit equivalent amounts   | (109,746)                  | (94,163)                   |
| <b>Off-balance sheet items</b>  | <b>46,948</b>              | <b>40,402</b>              |
| <b>Capital and total exposure</b>   |                            |                            |
| <b>Tier I capital</b>   | <b>35,239</b>              | <b>31,963</b>              |
| <b>Total exposure</b>   | <b>599,134</b>             | <b>529,598</b>             |
| <b>Leverage ratio</b>   |                            |                            |
| Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218  | 5.88%                      | 6.04%                      |
| Minimum leverage ratio required by the Supervisor of Banks  | 4.50%                      | 4.50%                      |

## Credit risk

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

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

### General information regarding credit risk quality (CRA)

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

Credit is at the core of banking activity, and therefore this is a significant risk in the activity of the banking system.

#### Risk assessment developments:

In the fourth quarter of 2025, the overall level of credit risk remained medium. The risk level with respect to borrower and collateral quality was lowered to medium, having been increased to medium-high in the third quarter of 2023, due to the deterioration across the economy as a result of the war and the potential impact on the state of borrowers and business activity. The decrease in the risk level in respect of borrower and collateral quality is due to continued recovery in economic activity, the stability of credit quality metrics, and the effects on the business sector of interest rate cuts and lower inflation.

The Bank closely monitors the potential effects and 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 monitors resumption of payments by all customers who postponed payments, and takes steps to improve borrower repayment capacity and to reduce the risk level.

As of December 31, 2025, deferred payments for business segment customers amounted to NIS 4 million, out of the total loan balance that has undergone changes to terms amounting to NIS 57 million.

As of December 31, 2025, deferred payments for individual segment customers amounted to NIS 10 million, out of the total loan balance that has undergone changes to terms amounting to NIS 13 million.

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.

### Credit risk management – objectives and policies

Mizrahi Tefahot Group has a balanced and stable credit risk profile thanks to, among other things, the composition of its credit portfolio, which includes a component of retail and mortgage operations.

The credit risks management policy seeks to balance the desire to minimize risks in as much as possible against Bank objectives to maximize profit by extending credit to customers. This is done taking into account affecting factors, such as: the regulatory environmental, market conditions, overall economic conditions, product type and behavior of competing banks.

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 activity in derivatives and securities, which stipulates the principles for management and monitoring of Bank customers with activity involving 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 risk management policy for environmental and climate risks.

Credit risk consists of multiple layers and requires various entities at the Bank to monitor and take action so as to allow the Bank to control such risk. Therefore, the Bank has specified different quantitative limits for activities involving risk factors.

## Business model

The Bank manages its credit operations in multiple segments, primarily: mortgages, business banking, commercial banking, households and small businesses. These segments differ by customer attributes, credit types and credit volumes requested, and by the organizational unit which handles each of these segments. Credit provided to these segments includes business credit, including credit for foreign trade operations and exposure due to operations involving derivatives, retail credit and mortgages. For more information about customer attributes in each segment, see chapter "Supervisory Operating Segments" in the Report by the Board of Directors and Management. The structure of lines of business with regard to credit is based on two divisions, reporting to the President & CEO, as follows:

- Retail Division – This division consolidates most the banking activity of individual customers (including international private banking in Israel serving foreign residents) and mortgages and the activity of small business customers. Bank branches and business centers operate under this division in seven geographic regions. The division is also in charge of the subsidiaries operating in the credit segment - Mizrahi Tefahot Leasing and Mizrahi Tefahot Discounting and Finance Ltd.
- Business Banking Division – This division handles most banking activity of business customers (including from the construction and real estate sector) who are medium-sized and over and international operations overseas.

## Approach to credit risk policy and setting limits

The Bank's credit risk management 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. This is done taking into account affecting factors, such as: the regulatory environmental, market conditions, overall economic conditions, product type and behavior of competing banks. The policy principles 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 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 activity in derivatives and securities, which stipulates the principles for management and monitoring of Bank customers with activity involving 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 risk management policy for environmental and climate risks.

The credit policies document is discussed and approved by the Senior Credit Committee and then by the Bank's Board of Directors. The Senior Credit Committee, headed by the Bank President & CEO, is the most senior forum for credit approval at the Bank. The Credit Risk Owner is the Manager, Corporate Division.

The Manager, Risks Management Division (CRO) is responsible for the policy document. The policy document specifies the risk appetite, consisting 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.

## 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, 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 regarding credit risk management. The Division operates through multiple independent units:

- Credit risks management and control – post-factum assessment, independent of the Bank's credit approval functions, of the borrower quality and quality of the Bank's credit portfolio, and execution of regular and independent monitoring 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 risk assessment 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.

As part of the credit granting process, transaction data is reviewed in accordance with criteria specified by the Bank. The decision making process for granting credit is hierarchical, from branch level to Board of Directors level. Each unit which provides credit monitors on a regular basis credit repayment in accordance with terms agreed as well as the financial status of the customer, based on their level of indebtedness. Any findings requiring action are reported to the relevant credit entity. In addition, as noted above, the credit granting process involves the Analysis Department, which is part of the Bank's risks management function. This involvement includes (with regard to major credit exposures and to economic sectors, as stipulated by the credit policy, in conformity with Proper Conduct of Banking Business Directives of the Bank of Israel) independent analysis of credit applications and presentation of conclusions and recommendations in a written document attached to the credit application and brought for discussion by the appropriate credit committee.

The purpose of the credit approval process is to review and assess the risk associated with extending credit to any customer, primarily verifying that the requested credit is in fact appropriate for customer needs and repayment capacity. This review is conducted both for approval of new credit and for renewal of or changes to existing credit.

The guidelines for the process of review and approval of credit applications, as listed in the Bank's credit policy, refer to any case where new credit approval is requested for a customer or renewal of existing credit or changes to credit

composition, collateral, AOC and covenants. The general process for review and approval of credit applications includes the following steps:

- Review of the credit objective and its alignment with the requested credit type.
- Review of customer quality: borrower payment ethic, quality of owners and management. Business scope, sector situation, borrower standing in the sector, profitability, financial stability and repayment capacity of existing liabilities and for repayment terms of the requested credit.
- Review of external information sources, as needed.
- Review of the quality of proposed and required collateral and alignment with the requested credit type.
- Review of existing exposure to the customer and to the borrower group and profitability for the Bank at these levels.
- Specification of business terms and conditions, such as: interest rate, commissions etc. And testing of profitability and returns.
- Summary opinion of the business entity, including summary of credit risk associated with the application and how it is addressed / mitigated with reference to stress scenarios at transaction level and at borrower level.
- Recommendation – approve / reject / set conditions / modify in line with residual credit risk and customer profitability.
- Decision.

## Credit risk management tools – risk measurement systems

In general, it is Bank policy to manage and monitor risk using controlled computer systems, with minimum dependence on manual processes and with an update frequency that is as close as possible to real time.

The Bank uses computer systems to manage, locate, control and minimize credit risk. The systems are used, *inter alia*, as computer-based control tools to locate changes in rating, flag deviations from credit facilities and collateral differences, and locate development in credit risk arising from various other parameters in development and management of the customer account. There are many systems for control of credit management and risks monitoring, which play an important role in credit management, risks management and control processes. These are the key systems used to control credit management and for risks monitoring:

- Systems used in the management and control of the Bank's credit portfolio and its various components.
- A system for identifying and flagging alerts indicating credit risk markers, including negative business data collected by external companies.
- Problematic-debt system, which serves as a centralized system for problematic-debt management, including: Identifying, flagging and classification.
- Criteria model – for business credit rating system used to rate all debt for a single borrower.
- The MADHOM model (advanced rating, underwriting and management system) – the key rating model for individual customers and small businesses in the Retail Division.
- Credit application system for retail customers (corporations, private-business customers and individual customers) in the Retail Division – supporting credit application processes at Bank branches.

## Reports to management and to the Board of Directors

The Bank has specified two limit types for most of these areas. Board of Directors limitation and management limitation, according to the following approach:

**Board of Directors' limit** – The Board of Directors' limit on risk appetite reflects the maximum exposure allowed by the Bank Board of Directors for all risk areas. The Board of Directors' limit may be modified by the Bank Board of Directors, after discussion of the reasons for the required modification and its implications for the Bank's risk profile, based on developments in business directions of the Bank.

**Management limits** – Management limits are stricter than the Board limits and are designed to serve as a management tool for close monitoring of credit risk at the Bank and allowing exposures to be reduced even prior to exceeding the risk appetite specified by the Board of Directors. Management limits may be modified by the Bank's Senior Credit Committee, after discussion of the reasons for the required modification and its implications for the Bank's risk profile, based on developments in business directions of the Bank. The Bank regularly monitors compliance with risk appetite limits of the Bank. In case of any deviation from the limits specified by management, the relevant division reports, in conformity with reporting rules specified in the policy, to the various entities. The report includes the reasons for the deviation, implications of the deviation and steps taken, or recommended, in order to remedy the deviation.

Deviation from the Board of Directors limitation is only allowed subject to approval from the Board of Directors or from a Board committee.

Risk appetite limits are classified into two types:

**Risk limits** - indicators which reflect risk values, presented on a risk scale and a color is set for the risk indicator: Red/amber/green depending on how close the value is to the limit.

**Volume/execution limits** - quantitative measures, which are monitored in terms of the utilization rate out of the total limit.

In addition, reporting thresholds are defined to flag material changes in risk values.

**Credit quality of credit exposures (CR1) (NIS in millions)**

|  | December 31, 2025                                  |                |                                    |                 |
|--|--|----------------|------------------------------------|-----------------|
|  | Gross balances <sup>(1)</sup>                      |                | Provisions<br>for credit<br>losses | Net<br>balances |
|  | Non-accruing<br>or in arrears 90<br>days or longer | Others         |                                    |                 |
| Debts, except for bonds                    | 4,108  | 468,887        | 3,854                              | 469,141         |
| Bonds                                      | -  | 28,340         | -                                  | 28,340          |
| Off-balance sheet exposures <sup>(2)</sup> | 58   | 156,826        | 248                                | 156,636         |
| <b>Total</b>                               | <b>4,166</b>                                       | <b>654,053</b> | <b>4,102</b>                       | <b>654,117</b>  |

|  | December 31, 2024                                  |                |                                    |                 |
|--|--|----------------|------------------------------------|-----------------|
|  | Gross balances <sup>(1)</sup>                      |                | Provisions<br>for credit<br>losses | Net<br>balances |
|  | Non-accruing<br>or in arrears 90<br>days or longer | Others         |                                    |                 |
| Debts, except for bonds                    | 4,379  | 431,382        | 4,113                              | 431,648         |
| Bonds                                      | -  | 19,345         | -                                  | 19,345          |
| Off-balance sheet exposures <sup>(2)</sup> | 72   | 134,671        | 245                                | 134,498         |
| <b>Total</b>                               | <b>4,451</b>                                       | <b>585,398</b> | <b>4,358</b>                       | <b>585,491</b>  |

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

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

## Additional disclosure with regard to credit quality of credit exposures (CRB)

### **Handling of non-performing loans and collection of debts**

The handling of problem 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 borrower in financial difficulties, 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.

**Debt in arrears** – The state of arrears for debt is determined with reference to the contractual repayment terms. Below are three potential states of arrears:

1. Debt, including principal or interest, not paid by 30 days after the specified payment date, with reference to the original debt terms.
2. Deviation from credit facility approved and reported in checking account.
3. Low turnover – for as long as no amounts were credited to the account to cover the debt within the specified period, even if the debt is within the credit facility.

### **Identification and classification of non-accruing debts**

The Bank has specified procedures for identification of problematic credit and for classification of debt so as to distinguish between problematic debt, including non-accruing debt, and debt in good standing. According to these procedures, the Bank classifies all its problematic debt and off-balance sheet credit items under these classifications: special supervision, inferior or non-accruing. Debt classified as non-accruing debt, where based on current information and events it is expected that the Bank would not be able to collect all amounts due in conformity with contractual terms and conditions of the debt agreement.

**For classification and treatment of problematic credit, the Bank distinguishes between the following:**

#### **A. Commercial credit with respect to debt with contractual balance over NIS 1 million**

Decisions with regard to debt classification and the required provision are made based, *inter alia*, on the past-due status of the debt, assessment of the borrower's financial standing and repayment capacity, assessment of the primary debt repayment source, existence of collateral and its status, the financial standing of guarantors, if any and their commitment to support the debt and the borrower's capacity to obtain financing from third parties.

In any case, such commercial debt is classified as non-accruing debt when its principal or interest is in arrears for 90 days or longer, unless the debt is well secured and is in collection proceedings, or if the debt has undergone restructuring of problematic debt.

As from the classification date as non-accruing debt, debt is treated as debt not accruing interest income (such debt is known as "non-accruing debt").

**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 status of arrear days determined with reference to contractual repayment terms thereof, except for residential mortgages for which - according to the transition provisions - the Bank may continue accruing the arrears in accordance with the extent of arrears method.

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 thereto is in arrears 90 days or longer.

**Debt arrangement policies and accounting for changes in terms of debts of borrower in financial difficulties (instead of restructuring of problematic debts)**

As from January 1, 2024 the Bank has been implementing Public Reporting Directives with regard to "revision of debt terms for borrowers in financial difficulties" in accordance with the accounting update ASU 2022-02, in order to improve credit management and collection, and to avoid default or seizure of pledged assets.

The Bank has set and implements orderly procedures and processes for debt arrangements involving problematic debts and changes to terms and conditions of debts not identified as problematic.

Methods for changing terms and conditions of debts may include, inter alia, recycling of the loan, deferral of payment dates, reduced interest rates or periodic installment amounts, changes to repayment schedule, changes to debt terms in order to align it with the borrower's financing structure, debt consolidation for the borrower, transfer of debt to other borrowers in a borrower group under joint control, renewed evaluation of financial covenants imposed on the borrower, enhancing and changing collaterals, etc.

**Differences between definitions of arrears and default for accounting and supervisory purposes**

- Debt is defined to be "in arrears" for accounting purposes after being 30 days in arrears, and for measurement of capital adequacy, "loans in arrears" are so defined after being 90 days in arrears.
- Off-balance sheet credit would be classified as problematic debt if realization of the contingent liability is "possible" and if debts recognized due to realization of the contingent liability may be classified as problematic. Conversely, off-balance sheet credit exposures would be classified as exposures in arrears for capital adequacy purposes consistently with classification of on-balance sheet exposures of the same borrower.

**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 recognize 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 the measurement of 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; (7) credit aging.

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 established, 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.

## Credit risk<sup>(2)</sup> by economic sector

As of December 31, 2025

Below are details of credit risk by economic sector (NIS in millions):

|  | Total credit risk <sup>(1)</sup> |  |                                    |                            |                |                              | Off balance sheet debts <sup>(2)</sup> and credit risk (other than derivatives) <sup>(3)</sup> |              |  |                              |  |
|--|----------------------------------|--|------------------------------------|----------------------------|----------------|------------------------------|--|--------------|--|------------------------------|--|
|  | Of which:                        |  |                                    |                            |                | Credit losses <sup>(3)</sup> |  |              |  |                              |  |
|  | Total                            | Credit performance rating <sup>(4)</sup> | Credit at performing credit rating | Problematic <sup>(5)</sup> | Total          | Debts                        | Problematic <sup>(5)</sup>   | Non-accruing | Expenses with respect to credit losses | Net of accounting write-offs | Balance of provision for credit losses |
| <b>Borrower activity in Israel</b>                         |                                  |  |                                    |                            |                |                              |  |              |  |                              |  |
| <b>Public – commercial</b>                                 |                                  |  |                                    |                            |                |                              |  |              |  |                              |  |
| Agriculture, forestry and fishing                          | 1,168                            | 1,070                                    | 53                                 | 45                         | 1,168          | 854                          | 45   | 32           | (3)                                    | -                            | 29                                     |
| Mining and excavation                                      | 5,167                            | 5,165                                    | -                                  | 2                          | 5,035          | 3,822                        | 2  | -            | 3                                      | -                            | 36                                     |
| Industry and production                                    | 15,167                           | 13,972                                   | 759                                | 436                        | 14,980         | 8,758                        | 436  | 180          | (53)                                   | 67                           | 362                                    |
| Of which: Diamonds   | 1,208                            | 898                                      | 115                                | 195                        | 1,208          | 796                          | 195  | 81           | (29)                                   | 40                           | 50                                     |
| Construction and real estate – construction <sup>(6)</sup> | 82,021                           | 77,688                                   | 3,929                              | 404                        | 81,906         | 40,155                       | 404  | 257          | (51)                                   | (14)                         | 345                                    |
| Construction and real estate – real estate operations      | 14,256                           | 13,831                                   | 242                                | 183                        | 13,878         | 12,126                       | 179  | 72           | (9)                                    | 1                            | 217                                    |
| Electricity and water delivery                             | 13,479                           | 12,916                                   | 555                                | 8                          | 13,119         | 7,745                        | 8  | 2            | 42                                     | 5                            | 166                                    |
| Commerce   | 17,445                           | 16,243                                   | 601                                | 601                        | 17,229         | 13,430                       | 601  | 374          | 43                                     | 53                           | 442                                    |
| Hotels, dining and food services                           | 2,579                            | 2,322                                    | 98                                 | 159                        | 2,575          | 1,975                        | 159  | 50           | (1)                                    | 7                            | 107                                    |
| Transport and storage                                      | 5,295                            | 4,688                                    | 517                                | 90                         | 5,279          | 2,817                        | 90   | 54           | 62                                     | 31                           | 116                                    |
| Information and communications                             | 2,060                            | 2,021                                    | 27                                 | 12                         | 1,988          | 1,183                        | 12   | 7            | (1)                                    | (1)                          | 26                                     |
| Financial services   | 40,130                           | 40,067                                   | 56                                 | 7                          | 36,566         | 20,393                       | 7  | 4            | (12)                                   | (2)                          | 35                                     |
| Other business services                                    | 8,561                            | 8,221                                    | 195                                | 145                        | 8,547          | 5,362                        | 145  | 76           | 25                                     | 42                           | 169                                    |
| Public and community services                              | 3,700                            | 3,481                                    | 125                                | 94                         | 3,688          | 2,754                        | 94   | 65           | 26                                     | 23                           | 83                                     |
| <b>Total commercial</b>                                    | <b>211,028</b>                   | <b>201,685</b>                           | <b>7,157</b>                       | <b>2,186</b>               | <b>205,958</b> | <b>121,374</b>               | <b>2,182</b>   | <b>1,173</b> | <b>71</b>                              | <b>212</b>                   | <b>2,133</b>                           |
| Private individuals – residential mortgages                | 264,579                          | 258,648                                  | 3,396                              | 2,535                      | 264,579        | 245,226                      | 2,535  | 2,535        | (119)                                  | (4)                          | 1,098                                  |
| Private individuals – other                                | 45,006                           | 44,302                                   | 405                                | 299                        | 44,994         | 28,494                       | 299  | 76           | 200                                    | 164                          | 733                                    |
| <b>Total public – activity in Israel</b>                   | <b>520,613</b>                   | <b>504,635</b>                           | <b>10,958</b>                      | <b>5,020</b>               | <b>515,531</b> | <b>395,094</b>               | <b>5,016</b>   | <b>3,784</b> | <b>152</b>                             | <b>372</b>                   | <b>3,964</b>                           |
| Banks in Israel  | 4,595                            | 4,595                                    | -                                  | -                          | 584            | 584                          | -  | -            | -                                      | -                            | -                                      |
| Government of Israel                                       | 35,485                           | 35,485                                   | -                                  | -                          | 1              | 1                            | -  | -            | -                                      | -                            | -                                      |
| <b>Total activity in Israel</b>                            | <b>560,693</b>                   | <b>544,715</b>                           | <b>10,958</b>                      | <b>5,020</b>               | <b>516,116</b> | <b>395,679</b>               | <b>5,016</b>   | <b>3,784</b> | <b>152</b>                             | <b>372</b>                   | <b>3,964</b>                           |
| <b>Borrower activity overseas</b>                          |                                  |  |                                    |                            |                |                              |  |              |  |                              |  |
| Total public – activity overseas                           | 13,628                           | 13,272                                   | -                                  | 356                        | 13,464         | 9,261                        | 342  | 194          | 75                                     | 120                          | 137                                    |
| Overseas banks   | 17,430                           | 17,430                                   | -                                  | -                          | 17,364         | 17,364                       | -  | -            | 1                                      | -                            | 4                                      |
| Overseas governments                                       | 9,486                            | 9,485                                    | -                                  | 1                          | 347            | 347                          | 1  | 1            | -                                      | -                            | 1                                      |
| <b>Total activity overseas</b>                             | <b>40,544</b>                    | <b>40,187</b>                            | <b>-</b>                           | <b>357</b>                 | <b>31,175</b>  | <b>26,972</b>                | <b>343</b>   | <b>195</b>   | <b>76</b>                              | <b>120</b>                   | <b>142</b>                             |
| <b>Total</b>   | <b>601,237</b>                   | <b>584,902</b>                           | <b>10,958</b>                      | <b>5,377</b>               | <b>547,291</b> | <b>422,651</b>               | <b>5,359</b>   | <b>3,979</b> | <b>228</b>                             | <b>492</b>                   | <b>4,106</b>                           |

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts<sup>(2)</sup> – 422,651; bonds – 46,697; securities borrowed or acquired in conjunction with resale agreements – 593; (on- and off-balance sheet) credit risk with respect to derivatives – 6,656; and credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 124,640.

(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 724 million and off-balance sheet credit risk amounting to NIS 821 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<sup>(2)</sup> by economic sector – Continued

As of December 31, 2024

Details of credit risk by economic sector – Continued (NIS in millions):

|  | Total credit risk <sup>(1)</sup> |  |  |                            |                |                |                            | Off balance sheet debts <sup>(2)</sup> and credit risk (other than derivatives) <sup>(3)</sup> |  |                           |  |
|--|----------------------------------|--|--|----------------------------|----------------|----------------|----------------------------|--|--|---------------------------|--|
|  | Of which:                        |  |  |                            |                |                |                            | Credit losses <sup>(3)</sup>   |  |                           |  |
|  | Total                            | Credit performance rating <sup>(4)</sup> | Credit in good standing other than at performing credit rating | Problematic <sup>(5)</sup> | Total          | Debts          | Problematic <sup>(5)</sup> | Non-accruing   | Expenses with respect to credit losses | Net accounting write-offs | Balance of provision for credit losses |
| <b>Borrower activity in Israel</b>                         |                                  |  |  |                            |                |                |                            |  |  |                           |  |
| <b>Public – commercial</b>                                 |                                  |  |  |                            |                |                |                            |  |  |                           |  |
| Agriculture, forestry and fishing                          | 1,408                            | 1,307                                    | 75   | 26                         | 1,408          | 1,103          | 26                         | 20   | 7                                      | 7                         | 32                                     |
| Mining and excavation                                      | 3,189                            | 3,181                                    | -  | 8                          | 3,054          | 2,166          | 8                          | 6  | 8                                      | -                         | 33                                     |
| Industry and production                                    | 17,241                           | 16,143                                   | 549  | 549                        | 17,049         | 9,192          | 545                        | 211  | 25                                     | (21)                      | 482                                    |
| Of which: Diamonds   | 1,608                            | 1,319                                    | 49   | 240                        | 1,608          | 1,113          | 240                        | 99   | 29                                     | -                         | 119                                    |
| Construction and real estate – construction <sup>(6)</sup> | 64,807                           | 61,746                                   | 2,300  | 761                        | 64,684         | 31,310         | 761                        | 483  | 13                                     | 27                        | 382                                    |
| Construction and real estate – real estate operations      | 11,712                           | 11,406                                   | 130  | 176                        | 11,293         | 9,688          | 176                        | 111  | 2                                      | -                         | 227                                    |
| Electricity and water delivery                             | 12,356                           | 12,305                                   | 41   | 10                         | 12,002         | 7,114          | 10                         | 7  | 44                                     | 3                         | 129                                    |
| Commerce   | 17,514                           | 16,137                                   | 641  | 736                        | 17,383         | 13,158         | 736                        | 335  | 6                                      | 74                        | 452                                    |
| Hotels, dining and food services                           | 2,216                            | 1,958                                    | 86   | 172                        | 2,211          | 1,681          | 172                        | 62   | 1                                      | 32                        | 115                                    |
| Transport and storage                                      | 3,757                            | 3,132                                    | 551  | 74                         | 3,728          | 2,975          | 74                         | 32   | 16                                     | 15                        | 85                                     |
| Information and communications                             | 1,820                            | 1,714                                    | 89   | 17                         | 1,717          | 950            | 17                         | 12   | 7                                      | 11                        | 26                                     |
| Financial services   | 32,901                           | 32,640                                   | 225  | 36                         | 27,168         | 14,878         | 36                         | 7  | 12                                     | 11                        | 45                                     |
| Other business services                                    | 8,181                            | 7,651                                    | 343  | 187                        | 8,162          | 5,187          | 187                        | 100  | 16                                     | 25                        | 186                                    |
| Public and community services                              | 3,378                            | 3,166                                    | 66   | 146                        | 3,375          | 2,575          | 146                        | 126  | (23)                                   | 10                        | 80                                     |
| <b>Total commercial</b>                                    | <b>180,480</b>                   | <b>172,486</b>                           | <b>5,096</b>   | <b>2,898</b>               | <b>173,234</b> | <b>101,977</b> | <b>2,894</b>               | <b>1,512</b>   | <b>134</b>                             | <b>194</b>                | <b>2,274</b>                           |
| Private individuals – residential mortgages                | 242,069                          | 236,827                                  | 3,101  | 2,141                      | 242,069        | 225,291        | 2,141                      | 2,141  | 64                                     | -                         | 1,213                                  |
| Private individuals – other                                | 43,186                           | 42,530                                   | 382  | 274                        | 43,181         | 27,447         | 274                        | 83   | 139                                    | 144                       | 697                                    |
| <b>Total public – activity in Israel</b>                   | <b>465,735</b>                   | <b>451,843</b>                           | <b>8,579</b>   | <b>5,313</b>               | <b>458,484</b> | <b>354,715</b> | <b>5,309</b>               | <b>3,736</b>   | <b>337</b>                             | <b>338</b>                | <b>4,184</b>                           |
| Banks in Israel  | 1,724                            | 1,724                                    | -  | -                          | 303            | 303            | -                          | -  | -                                      | -                         | -                                      |
| Government of Israel                                       | 23,511                           | 23,511                                   | -  | -                          | 2              | 2              | -                          | -  | -                                      | -                         | -                                      |
| <b>Total activity in Israel</b>                            | <b>490,970</b>                   | <b>477,078</b>                           | <b>8,579</b>   | <b>5,313</b>               | <b>458,789</b> | <b>355,020</b> | <b>5,309</b>               | <b>3,736</b>   | <b>337</b>                             | <b>338</b>                | <b>4,184</b>                           |
| <b>Borrower activity overseas</b>                          |                                  |  |  |                            |                |                |                            |  |  |                           |  |
| Total public – activity overseas                           | 10,344                           | 9,723                                    | -  | 621                        | 10,071         | 7,379          | 617                        | 560  | 181                                    | 92                        | 182                                    |
| Overseas banks   | 23,812                           | 23,812                                   | -  | -                          | 23,674         | 23,639         | -                          | -  | 1                                      | -                         | 3                                      |
| Overseas governments                                       | 2,400                            | 2,399                                    | -  | 1                          | 439            | 317            | 1                          | 1  | -                                      | -                         | 1                                      |
| <b>Total activity overseas</b>                             | <b>36,556</b>                    | <b>35,934</b>                            | <b>-</b>   | <b>622</b>                 | <b>34,184</b>  | <b>31,335</b>  | <b>618</b>                 | <b>561</b>   | <b>182</b>                             | <b>92</b>                 | <b>186</b>                             |
| <b>Total</b>   | <b>527,526</b>                   | <b>513,012</b>                           | <b>8,579</b>   | <b>5,935</b>               | <b>492,973</b> | <b>386,355</b> | <b>5,927</b>               | <b>4,297</b>   | <b>519</b>                             | <b>430</b>                | <b>4,370</b>                           |

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts<sup>(2)</sup> – 386,355; bonds – 27,593; securities borrowed or acquired in conjunction with resale agreements – 264; (on- and off-balance sheet) credit risk with respect to derivatives – 6,696; and credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 106,618.

(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 1,019 million and off-balance sheet credit risk amounting to NIS 1,098 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.

# Risks Report

As of December 31, 2025

Credit exposures by remaining term to maturity:

| As of December 31, 2025                           |                 |                |                             |                |                       |                          |
|---|-----------------|----------------|-----------------------------|----------------|-----------------------|--------------------------|
|   | Up to 1 year    | 1-5 years      | Over five years to 15 years | Over 15 years  | Total credit exposure | Average term to maturity |
|   | NIS in millions |                |                             |                |                       | Years                    |
| <b>On-balance sheet credit exposure:</b>          |                 |                |                             |                |                       |                          |
| Commercial  | 83,298          | 37,269         | 8,996                       | 839            | 130,402               | 1.5                      |
| Private individuals – residential mortgages       | 24,644          | 86,759         | 167,471                     | 122,322        | 401,196               | 11.0                     |
| Private individuals – other                       | 9,565           | 12,692         | 6,133                       | 16             | 28,406                | 3.5                      |
| Assets with respect to derivatives <sup>(1)</sup> | 4,312           | 952            | 377                         | 710            | 6,351                 | 0.6                      |
| <b>Total public</b>                               | <b>121,819</b>  | <b>137,672</b> | <b>182,977</b>              | <b>123,887</b> | <b>566,355</b>        | <b>8.3</b>               |
| Banks and governments                             | 99,383          | 12,239         | 14,259                      | 9,719          | 135,600               | 0.7                      |
| <b>Total credit exposure on balance sheet</b>     | <b>221,202</b>  | <b>149,911</b> | <b>197,236</b>              | <b>133,606</b> | <b>701,955</b>        | <b>6.8</b>               |
| Of which: Bonds                                   | 16,160          | 12,342         | 13,560                      | 9,719          | 51,781                | 1.2                      |
| <b>Total off-balance sheet credit exposure</b>    | <b>103,198</b>  | <b>47,127</b>  | <b>3,788</b>                | <b>1,169</b>   | <b>155,282</b>        | <b>1.7</b>               |

| As of December 31, 2024                           |                 |                |                             |                |                       |                          |
|---|-----------------|----------------|-----------------------------|----------------|-----------------------|--------------------------|
|   | Up to 1 year    | 1-5 years      | Over five years to 15 years | Over 15 years  | Total credit exposure | Average term to maturity |
|   | NIS in millions |                |                             |                |                       | Years                    |
| <b>On-balance sheet credit exposure:</b>          |                 |                |                             |                |                       |                          |
| Commercial  | 70,987          | 29,700         | 7,803                       | 576            | 109,066               | 1.5                      |
| Private individuals – residential mortgages       | 23,269          | 80,740         | 158,099                     | 113,575        | 375,683               | 11.0                     |
| Private individuals – other                       | 13,247          | 12,696         | 5,813                       | 16             | 31,772                | 3.2                      |
| Assets with respect to derivatives <sup>(1)</sup> | 3,822           | 1,111          | 509                         | 109            | 5,551                 | 0.8                      |
| <b>Total public</b>                               | <b>111,325</b>  | <b>124,247</b> | <b>172,224</b>              | <b>114,276</b> | <b>522,072</b>        | <b>8.4</b>               |
| Banks and governments                             | 89,197          | 9,171          | 12,681                      | 5,064          | 116,113               | 1.8                      |
| <b>Total credit exposure on balance sheet</b>     | <b>200,522</b>  | <b>133,418</b> | <b>184,905</b>              | <b>119,340</b> | <b>638,185</b>        | <b>7.2</b>               |
| Of which: Bonds                                   | 6,500           | 8,917          | 12,521                      | 5,064          | 33,002                | 2.8                      |
| <b>Total off-balance sheet credit exposure</b>    | <b>95,258</b>   | <b>35,741</b>  | <b>2,319</b>                | <b>1,219</b>   | <b>134,537</b>        | <b>1.5</b>               |

(1) Assets with respect to derivative instruments include derivative instruments of banks and governments.

# Risks Report

As of December 31, 2025

## Exposure to foreign countries<sup>(1)</sup>

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  | Balance sheet exposure <sup>(4)</sup> |            |               |   |  |   |                                   | Off-balance sheet exposure <sup>(4)(5)(6)</sup> |  |                    |                                  |                             |               |                     |                          |
|--|---------------------------------------|------------|---------------|---|--|---|-----------------------------------|---|--|--------------------|----------------------------------|-----------------------------|---------------|---------------------|--------------------------|
|  | Cross-border balance sheet exposure   |            |               | Balance sheet exposure of Bank affiliates in foreign country to local residents |  |   |                                   | Total balance sheet exposure                    | On-balance sheet problematic credit risk | Non-accruing debts | Total off-balance sheet exposure | Of which: Off-balance sheet |               | Matur-ing in 1 year | Matur-ing in over 1 year |
|  | To govern-ments <sup>(4)</sup>        | To banks   | To others     | Balance sheet exposure before deduction of local liabilities                    | Deduct-ion with respect to local liabilities | Net balance sheet exposure after deduction of local liabilities | Of which: problematic credit risk |   |  |                    |                                  | Matu-ring in over 1 year    |               |                     |                          |
| <b>December 31, 2025<sup>(2)</sup></b>                   |                                       |            |               |   |  |   |                                   |   |  |                    |                                  |                             |               |                     |                          |
| USA  | 8,741                                 | 332        | 5,963         | 20,092  | 560  | 19,533  | 34,568                            | 35  | -  | 4,353              | -                                | 8,890                       | 6,146         |                     |                          |
| Barbados <sup>(5)</sup>                                  | -                                     | -          | -             | -   | -  | -   | -                                 | -   | -  | -                  | -                                | -                           | -             | -                   | -                        |
| Others <sup>(6)</sup>                                    | 58                                    | 516        | 18,299        | 2,663   | 1,258  | 1,405   | 20,278                            | 45  | -  | 12,438             | -                                | 4,433                       | 14,440        |                     |                          |
| <b>Total exposure to foreign countries</b>               | <b>8,799</b>                          | <b>848</b> | <b>24,262</b> | <b>22,755</b>   | <b>1,818</b>                                 | <b>20,938</b>   | <b>54,846</b>                     | <b>80</b>                                       | <b>-</b>                                 | <b>16,791</b>      | <b>-</b>                         | <b>13,323</b>               | <b>20,586</b> |                     |                          |
| Of which: Total exposure to LDC countries <sup>(7)</sup> | 40                                    | -          | 622           | -   | -  | -   | 662                               | 2   | -  | 123                | -                                | 75                          | 587           |                     |                          |
| <b>December 31, 2024<sup>(2)</sup></b>                   |                                       |            |               |   |  |   |                                   |   |  |                    |                                  |                             |               |                     |                          |
| USA  | 1,657                                 | 490        | 4,793         | 26,306  | 8  | 26,298  | 33,238                            | 53  | -  | 1,901              | -                                | 2,189                       | 4,751         |                     |                          |
| Barbados <sup>(5)</sup>                                  | -                                     | -          | 4,857         | -   | -  | -   | 4,857                             | -   | -  | -                  | -                                | -                           | 4,857         |                     |                          |
| Others <sup>(6)</sup>                                    | 13                                    | 318        | 10,147        | 3,054   | 3,054  | -   | 10,478                            | 70  | -  | 11,599             | -                                | 3,870                       | 6,608         |                     |                          |
| <b>Total exposure to foreign countries</b>               | <b>1,670</b>                          | <b>808</b> | <b>19,797</b> | <b>29,360</b>   | <b>3,062</b>                                 | <b>26,298</b>   | <b>48,573</b>                     | <b>123</b>                                      | <b>-</b>                                 | <b>13,500</b>      | <b>-</b>                         | <b>6,059</b>                | <b>16,216</b> |                     |                          |
| Of which: Total exposure to LDC countries <sup>(7)</sup> | 13                                    | -          | 567           | -   | -  | -   | 580                               | 2   | -  | 110                | -                                | 25                          | 555           |                     |                          |

(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 6,920 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, 2024: NIS 7,744 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) Balance sheet exposure includes NIS 4,890 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. (As of December 31, 2024: NIS 3,408 million).

(7) The exposure to LDC countries includes countries defined as less developed, which are the countries classified by the World Bank as lower-middle-income countries.

# Risks Report

## As of December 31, 2025

**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):**

As of December 31, 2025, the balance sheet exposure to Barbados meets the threshold required for this disclosure and amounts to NIS 4.8 billion. As of December 31, 2024, 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**

|   | <b>For the year ended</b>     |
|---|-------------------------------|
|   | <b>As of December 31,</b>     |
|   | <b>2024</b>                   |
|   | <b>Barbados<sup>(1)</sup></b> |
| Exposure at start of reported period      | 5,353                         |
| Net changes to exposure                   | (496)                         |
| <b>Exposure at end of reported period</b> | <b>4,857</b>                  |

As of December 31, 2025, the Bank had no exposure to foreign countries facing liquidity issues where the exposure with respect of which exceeds the reporting threshold set in the Public Reporting Directives.

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.

The exposure presented above represents, in accordance with directives of the Supervisor of Banks, exposure based on final risk. The party bearing the final risk is an individual, business, institution or instrument which provides "credit reinforcement" to the Bank, such as guarantees, collateral, insurance contracts or credit derivatives. When no "credit reinforcement" exists, the party bearing the final risk is the debtor.

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of affiliates of the banking corporation in foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of Israeli offices of the banking corporation to residents of the foreign country and balance sheet exposure of overseas affiliates of the banking corporation to non-residents of the country where the affiliate is located. Balance sheet exposure of affiliates of the banking corporation in a foreign country to local residents includes balance sheet exposure of affiliates of the banking corporation in that foreign country to local residents, less liabilities of these affiliates (deducted up to the exposure amount).

## Credit risk mitigation (CRC)

The Bank Group takes different actions to mitigate risks associated with extending credit and with credit concentration. Below is a description of major tools used to mitigate risk in conjunction with the Bank's credit policies.

**Offset of assets and liabilities** – The Bank applies the rules specified in the Supervisor of Banks' circular dated December 12, 2012.

In conformity with the directives, a banking corporation should offset assets and liabilities arising from the same counter-party and present their net balance on the balance sheet, when all of the following conditions are fulfilled:

- 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.

According to the directives, a banking corporation should offset assets and liabilities with two different counter-parties and present the net amount on the balance sheet when all of the aforementioned conditions are fulfilled, and provided that the three parties have an agreement which clearly stipulates the banking corporation's set-off rights with regard to those liabilities.

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. 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".

**Collateral** – Collateral received by the Bank is designed to secure repayment of credit extended by the Bank to the customer, in case of insolvency. The quality and extent of collateral required from the customer is determined based on the basic borrower attributes, transaction attributes and materiality of the risk of the customer being unable to repay the credit. The higher the risk, the larger and more liquid collateral required by the Bank. In general, customers are required to provide collateral types which match, to the extent possible, the credit extended based on parameters such as: Match with the transaction, amount and credit term.

Bank policies and procedures specify the asset types which may be recognized as collateral for providing credit. The commonly used collateral types at the Bank are: Deposits, securities, liens on real estate, vehicles, credit vouchers, checks, bank guarantees and institutional, corporate or individual guarantees. As part of the collateral policies, rules and principles were prescribed as to the level of reliance on each type of collateral, with regard to its character, marketability, price volatility, promptness of realization and legal status, in addition to assessing the repayment ability of a customer as a criterion for issuing the loans.

There are also other collateral types, such as a floating lien, receivables and/or financial and operating covenants imposed on the customer to secure their capacity to repay their debt to the Bank.

The collateral is matched, as far as possible, to the type of credit that it secures, while taking into account the period of time, types of linkage, character of loans and their purpose, as well as how quickly it can be realized. Collateral coefficients determine the extent to which the Bank is willing to rely on specific collateral to secure credit. The value of the collateral, with the use of safety factors, is, as far as possible, calculated automatically by the IT systems. The safety factors for different types of collateral are examined once a year and approved by the Senior Credit Committee and by the Board of Directors. There is also collateral in place which is not accounted for in calculating safety factors, but only used to reinforce existing collateral. The Bank also approves, on a limited, case-by-case basis, the granting of credit solely on the basis of the borrower's obligation.

**Guarantors** – Sometimes, the Bank requires customers to provide guarantees or guarantors to secure credit. There are different types of guarantees, such as personal guarantees, various bank guarantees, State guarantees, insurance policies or letters of indemnification.

**Credit syndication** – The Bank participates in syndication through a professional department which allows the Bank to lead syndications of significant credit volumes. Syndicated financing allows the risk to be diversified among multiple financing providers in large credit transactions.

**Debts sharing / sale** – Another tool used to mitigate credit risk is sharing / selling parts of the Bank's credit portfolio in certain segments to financial institutions. In recent years, the Bank has established the business, legal and operational infrastructure for selling of credit risk.

**Hedges** – Borrowers with currency exposure are offered means of safety and protection (hedging transactions) in order to reduce their exposure, in addition to other measures that the Bank adopts to minimize the risk of the Bank's exposure from the activities of these customers. The Bank has specified guidelines for the monitoring, control, and supervision of the activities of borrowers whose debts to the Bank are sensitive to exchange rate fluctuations, including the creation of

simulations and future scenarios of changes in exchange rates. Special controls are also used for customers, when securities form a significant element of their collateral.

**Credit portfolio insurance** - the Bank has in place credit insurance policies issued by insurers and reinsurers in connection with various credit portfolios: Mortgage portfolios, portfolios of loans for the financing of land, and housing bonds and performance guarantee portfolios in construction-financing projects. These insurance policies allow the bank to reduce its risk-weighted assets; however, the insurance policies also mitigate the credit risk.

### **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. For verification of information about the property offered to the Bank as collateral and to determine its value, an assessor visit to the property is normally required, providing a report which describes the property, its location, physical condition and market value. Assessors are party to an agreement with the Bank and act in accordance with Bank guidance, including a structured procedure for conducting assessments, identifying exceptions etc. The common practice for assessment in the mortgage sector is to use an abbreviated assessment. However, the Bank requires an extended assessment for some of the loans for purchase of existing apartments, self-construction or general-purpose loans with high-risk property types, which includes additional tests subject to criteria set for this matter.

**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.

# Risks Report

As of December 31, 2025

## Credit risk mitigation methods (CR3) (NIS in millions)

|  | As of December 31, 2025                                 |   |   |                             |                                |   |                                |                             |                                    |  |
|--|---|---|---|-----------------------------|--------------------------------|---|--------------------------------|-----------------------------|------------------------------------|--|
|  | Non-secured   |   | Secured                                       |                             |                                |   |                                |                             |                                    |  |
|  | Total on-<br>balance<br>sheet<br>balance <sup>(1)</sup> | Total on-<br>balance<br>sheet<br>balance <sup>(1)</sup> | Of which: By<br>collateral                    |                             |                                | Of which: By<br>financial<br>guarantees |                                |                             | Of which: By<br>credit derivatives |  |
|  |   |   | Of which:<br>Secured<br>amount <sup>(2)</sup> | Balance<br>sheet<br>balance | Of which:<br>Secured<br>amount | Balance<br>sheet<br>balance             | Of which:<br>Secured<br>amount | Balance<br>sheet<br>balance | Of which:<br>Secured<br>amount     |  |
| Debts, except for bonds                                      | 412,039   | 57,102  | 20,626  | 29,039                      | 7,970                          | 28,062                                  | 12,655                         | -                           | -                                  |  |
| Bonds  | 28,340  | -   | -   | -                           | -                              | -                                       | -                              | -                           | -                                  |  |
| <b>Total</b>   | <b>440,379</b>  | <b>57,102</b>   | <b>20,626</b>                                 | <b>29,039</b>               | <b>7,970</b>                   | <b>28,062</b>                           | <b>12,655</b>                  |                             |                                    |  |
| Of which: Non-accruing<br>or in arrears 90 days or<br>longer | 3,626   | 482   | 57  | 233                         | 31                             | 249                                     | 25                             |                             |                                    |  |

|  | As of December 31, 2024                                 |   |   |                             |                                |   |                                |                             |                                    |  |
|--|---|---|---|-----------------------------|--------------------------------|---|--------------------------------|-----------------------------|------------------------------------|--|
|  | Non-secured   |   | Secured                                       |                             |                                |   |                                |                             |                                    |  |
|  | Total on-<br>balance<br>sheet<br>balance <sup>(1)</sup> | Total on-<br>balance<br>sheet<br>balance <sup>(1)</sup> | Of which: By<br>collateral                    |                             |                                | Of which: By<br>financial<br>guarantees |                                |                             | Of which: By<br>credit derivatives |  |
|  |   |   | Of which:<br>Secured<br>amount <sup>(2)</sup> | Balance<br>sheet<br>balance | Of which:<br>Secured<br>amount | Balance<br>sheet<br>balance             | Of which:<br>Secured<br>amount | Balance<br>sheet<br>balance | Of which:<br>Secured<br>amount     |  |
| Debts, except for bonds                                      | 378,950   | 52,698  | 17,859  | 28,445                      | 7,977                          | 24,254                                  | 9,882                          | -                           | -                                  |  |
| Bonds  | 19,345  | -   | -   | -                           | -                              | -                                       | -                              | -                           | -                                  |  |
| <b>Total</b>   | <b>398,295</b>  | <b>52,698</b>   | <b>17,859</b>                                 | <b>28,445</b>               | <b>7,977</b>                   | <b>24,254</b>                           | <b>9,882</b>                   |                             |                                    |  |
| Of which: Non-accruing<br>or in arrears 90 days or<br>longer | 3,778   | 601   | 136   | 225                         | 38                             | 376                                     | 98                             |                             |                                    |  |

(1) Balance sheet balance in conformity with reported carrying amounts on the financial statements, after provisions for credit losses.

(2) Balance sheet balance of part of the debt amount secured by collateral, guarantee or credit derivative, after accounting for safety factors.

## Credit risk using the standard approach

Calculation of credit risk using the standard approach is based on external credit ratings assigned by External Credit Assessment Institutions (ECAI).

Ratings from these rating agencies are used to determine the risk weighting of the following exposure groups:

- Sovereigns
- Public sector
- Banking corporations
- Insurance companies, provident funds and mutual funds
- Corporations

The appropriate risk weighting is assigned based on counter-party data.

The risk weighting for banks, public sector entities, insurance companies, provident funds and mutual funds is assigned based on the risk weighting of the country where the bank is incorporated and is one notch lower than the risk weighting for the rating of said country.

For investment in issuances with a specific issue rating, the risk weighting for the debt shall be based on this rating, unless the issuer is a banking corporation or a public sector entity, insurance companies, provident funds and mutual funds. In such cases, the risk weighting would be based on the issuer rating, rather than on the specific issue rating.

For this rating, the Bank used a single rating from S&P. As from the first quarter of 2022, the Bank started using the lower of ratings from S&P and from AM Best, used for rating of credit risk insurers, in order to mitigate credit risk so that the risk weighting is based on insurer rating, rather than on counter-party rating.

The following table maps the ratings by international rating agencies used by the Bank:

| <b>S&amp;P</b> | <b>AM Best</b> |
|----------------|----------------|
| AAA to AA-     | A++ to A+      |
| A+ to A-       | A to A-        |
| BBB+ to BBB-   | B++ to B+      |
| BB+ to BB-     | B to B-        |
| B+ to B-       | C++ to C+      |
| CCC+ or lower  | C or lower     |

Note that the majority of credit risk at the Bank is not rated by an external rating.

### Framework analysis and approval

As part of the Bank's business operations, in order to prepare operating frameworks for credit exposure and other risks with regard to foreign banks and financial institutions, the Bank uses public information and ratings and any other information available with regard to financial institutions to which the Bank has exposure, that serve the Bank for analysis and for setting exposure limits.

# Risks Report

As of December 31, 2025

## Standard approach – exposure to credit risk and effects of credit risk mitigation (CR4)

Below is the composition of net credit exposure by risk mitigation type) (NIS in millions)<sup>(1)</sup>:

|   | As of December 31, 2025                                      |   |   |   |                         |                    |
|---|--|---|---|---|-------------------------|--------------------|
|   | Exposures before conversion factors and collateral deduction |   | Exposures after conversion factors and collateral deduction |   | Risk assets and density |                    |
|   | On-balance sheet amount <sup>(2)</sup>                       | Off-balance sheet amount <sup>(2)</sup> | On-balance sheet amount <sup>(3)</sup>                      | Off-balance sheet amount <sup>(3)</sup> | Risk assets             | Risk asset density |
| Sovereigns, central banks thereof and national monetary authority | 105,064  | 120                                     | 105,055   | 60                                      | 1,800                   | 2%                 |
| Public sector entities (PSE) other than central Government        | 1,632  | 969                                     | 1,923   | 271                                     | 969                     | 44%                |
| Banks (including multilateral development banks)                  | 4,108  | 3,259                                   | 4,993   | 674                                     | 2,682                   | 47%                |
| Securities companies  | 511  | 4,205                                   | 2,071   | 810                                     | 1,441                   | 50%                |
| Corporations  | 91,543   | 104,283                                 | 94,205  | 36,802                                  | 118,895                 | 91%                |
| Retail exposures to individuals                                   | 28,566   | 16,944                                  | 27,304  | 2,406                                   | 22,289                  | 75%                |
| Loans to small businesses   | 14,586   | 6,497                                   | 12,746  | 1,206                                   | 10,465                  | 75%                |
| Secured by residential property                                   | 243,328  | 19,404                                  | 238,345   | 1,969                                   | 129,187                 | 54%                |
| Secured by commercial property                                    | 7,648  | 988                                     | 7,329   | 361                                     | 7,690                   | 100%               |
| Loans in arrears  | 4,021  | -                                       | 3,950   | -                                       | 5,291                   | 134%               |
| Other assets  | 8,519  | 190                                     | 8,518   | 95                                      | 5,761                   | 67%                |
| <b>Total</b>  | <b>509,526</b>   | <b>156,859</b>                          | <b>506,439</b>  | <b>44,654</b>                           | <b>306,470</b>          | <b>56%</b>         |

|   | As of December 31, 2024                                      |   |   |   |                         |                    |
|---|--|---|---|---|-------------------------|--------------------|
|   | Exposures before conversion factors and collateral deduction |   | Exposures after conversion factors and collateral deduction |   | Risk assets and density |                    |
|   | On-balance sheet amount <sup>(2)</sup>                       | Off-balance sheet amount <sup>(2)</sup> | On-balance sheet amount <sup>(3)</sup>                      | Off-balance sheet amount <sup>(3)</sup> | Risk assets             | Risk asset density |
| Sovereigns, central banks thereof and national monetary authority | 96,312   | 122                                     | 96,633  | 61                                      | 1,458                   | 2%                 |
| Public sector entities (PSE) other than central Government        | 1,669  | 935                                     | 1,780   | 220                                     | 929                     | 46%                |
| Banks (including multilateral development banks)                  | 3,730  | 2,768                                   | 4,440   | 570                                     | 1,776                   | 35%                |
| Securities companies  | 567  | 4,740                                   | 808   | 912                                     | 860                     | 50%                |
| Corporations  | 77,599   | 85,683                                  | 80,037  | 30,849                                  | 99,530                  | 90%                |
| Retail exposures to individuals                                   | 27,520   | 16,038                                  | 26,145  | 2,265                                   | 21,308                  | 75%                |
| Loans to small businesses   | 14,197   | 6,326                                   | 12,134  | 1,198                                   | 9,999                   | 75%                |
| Secured by residential property                                   | 223,313  | 16,831                                  | 218,253   | 1,485                                   | 118,907                 | 54%                |
| Secured by commercial property                                    | 6,042  | 1,093                                   | 5,773   | 398                                     | 6,171                   | 100%               |
| Loans in arrears  | 3,760  | -                                       | 3,611   | -                                       | 4,828                   | 134%               |
| Other assets  | 7,355  | 178                                     | 7,356   | 89                                      | 4,938                   | 66%                |
| <b>Total</b>  | <b>462,064</b>   | <b>134,714</b>                          | <b>456,970</b>  | <b>38,047</b>                           | <b>270,704</b>          | <b>55%</b>         |

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

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

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

# Risks Report

As of December 31, 2025

## Standard approach – exposures by asset type and risk weighting (CRS)<sup>(1)(2)</sup> (NIS in millions)

| As of December 31, 2025   |                |               |               |               |               |               |                |              |            |  |
|---|----------------|---------------|---------------|---------------|---------------|---------------|----------------|--------------|------------|--|
| Asset types / risk weighting                                      | 0%             | 20%           | 35%           | 50%           | 60%           | 75%           | 100%           | 150%         | Other      | Total credit exposures (after conversion factors and collateral deduction) |
| Sovereigns, central banks thereof and national monetary authority | 97,345         | 7,548         | -             | -             | -             | -             | 85             | 137          | -          | 105,115  |
| Public sector entities (PSE) other than central Government        | 256            | -             | -             | 1,937         | -             | -             | 1              | -            | -          | 2,194  |
| Banks (including multilateral development banks)                  | 1              | 522           | -             | 5,133         | -             | -             | 11             | -            | -          | 5,667  |
| Securities companies  | -              | -             | -             | 2,881         | -             | -             | -              | -            | -          | 2,881  |
| Corporations  | 229            | 10,568        | -             | 7,207         | -             | -             | 112,357        | 546          | 100        | 131,007  |
| Retail exposures to individuals                                   | -              | -             | -             | -             | -             | 29,680        | 30             | -            | -          | 29,710   |
| Loans to small businesses   | -              | -             | -             | -             | -             | 13,945        | 7              | -            | -          | 13,952   |
| Secured by residential property                                   | -              | -             | 68,176        | 58,104        | 78,775        | 25,514        | 9,745          | -            | -          | 240,314  |
| Secured by commercial property                                    | -              | -             | -             | -             | -             | -             | 7,690          | -            | -          | 7,690  |
| Loans in arrears  | -              | -             | -             | -             | -             | -             | 1,269          | 2,681        | -          | 3,950  |
| Other assets  | 3,074          | -             | -             | -             | -             | -             | 5,097          | 442          | -          | 8,613  |
| Of which: with respect to shares                                  | -              | -             | -             | -             | -             | -             | 781            | 74           | -          | 855  |
| <b>Total</b>  | <b>100,905</b> | <b>18,638</b> | <b>68,176</b> | <b>75,262</b> | <b>78,775</b> | <b>69,139</b> | <b>136,292</b> | <b>3,806</b> | <b>100</b> | <b>551,093</b>   |
| As of December 31, 2024   |                |               |               |               |               |               |                |              |            |  |
| Asset types / risk weighting                                      | 0%             | 20%           | 35%           | 50%           | 60%           | 75%           | 100%           | 150%         | Other      | Total credit exposures (after conversion factors and collateral deduction) |
| Sovereigns, central banks thereof and national monetary authority | 90,241         | 6,244         | -             | -             | -             | -             | 209            | -            | -          | 96,694   |
| Public sector entities (PSE) other than central Government        | 144            | -             | -             | 1,855         | -             | -             | 1              | -            | -          | 2,000  |
| Banks (including multilateral development banks)                  | -              | 2,447         | -             | 2,552         | -             | -             | 11             | -            | -          | 5,010  |
| Securities companies  | -              | -             | -             | 1,720         | -             | -             | -              | -            | -          | 1,720  |
| Corporations  | 266            | 10,563        | -             | 6,193         | -             | -             | 92,961         | 901          | 2          | 110,886  |
| Retail exposures to individuals                                   | -              | -             | -             | -             | -             | 28,410        | -              | -            | -          | 28,410   |
| Loans to small businesses   | -              | -             | -             | -             | -             | 13,332        | -              | -            | -          | 13,332   |
| Secured by residential property                                   | -              | -             | 62,005        | 52,309        | 69,305        | 26,607        | 9,512          | -            | -          | 219,738  |
| Secured by commercial property                                    | -              | -             | -             | -             | -             | -             | 6,171          | -            | -          | 6,171  |
| Loans in arrears  | -              | -             | -             | -             | -             | -             | 1,177          | 2,434        | -          | 3,611  |
| Other assets  | 2,705          | -             | -             | -             | -             | -             | 4,343          | 397          | -          | 7,445  |
| Of which: with respect to shares                                  | -              | -             | -             | -             | -             | -             | 764            | 62           | -          | 826  |
| <b>Total</b>  | <b>93,356</b>  | <b>19,254</b> | <b>62,005</b> | <b>64,629</b> | <b>69,305</b> | <b>68,349</b> | <b>114,385</b> | <b>3,732</b> | <b>2</b>   | <b>495,017</b>   |

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

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

## Additional information about credit risk

### Risks in the residential mortgage portfolio

In conjunction with credit risk 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.

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: LTV ratio, property location (geographic risk), credit quality benchmarks, loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.

The Bank acts regularly to control and manage the risk associated with residential mortgages, for which the Retail Division, the Risks 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.

Regular monitoring of the risk profile of the mortgage portfolio and its evolution over time, in view of the specified risk appetite, shows that leading risk benchmarks remain stable and do not indicate material deterioration or change in risk level; however, there is uncertainty with regard to the war's long-term effects. 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 (as of the end of December 2025) was 54.7%, compared to 55.1% on December 31, 2024.

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.

Means for risk management in residential mortgages include:

- Underwriting process – residential mortgages are reviewed and approved by a process which includes the following:
  - Criteria specified in Bank procedures, reflecting the Bank's cumulative interest in residential mortgages. Loan approval criteria include: Nature of the transaction, borrower quality and repayment capacity, property collateral offered, including estimated credit risk in various regions of the country, and the guarantors.
  - 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 the individual borrower risk level.
  - 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.

The risk level in the mortgages portfolio remains unchanged, at a low-medium level. Despite the positive developments, uncertainty remains as to the stability of the security situation in view of the ceasefire and its impact on economic activity. It should be noted that as in the case of the Covid-19 pandemic, which saw extensive mortgage deferrals, the Iron Swords War period also demonstrated that, in actual fact, once full economic activity resumed, the risk potential in the mortgage

portfolio did not materialize. The risk benchmarks throughout 2025 did not indicate any material change in risk level, and therefore the risk assessment remained unchanged. The Bank continues to monitor the developments and their impact of economic growth and activity. The vast majority of the customers who deferred payments resumed normal payments, and the Bank deals in an orderly manner with customers who still defer payments.

As of December 31, 2025, deferred payments for residential mortgage segment customers amounted to NIS 11 million, out of a total loan balance that has undergone changes to the terms and conditions amounting to NIS 238 million, compared to deferred payments for residential mortgage segment customers as of December 31, 2024, which stood at NIS 115 million out of a loan balance that has undergone changes to terms and conditions amounting to NIS 5.2 billion.

## **Credit risk in construction and real estate economic sector**

Credit operations in this sector account for a significant component of credit operations of the Bank. In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing is focused mainly on residential construction. 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 solely by business centers and branches, which specialize in this activity, 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, purchase groups, urban renewal, etc. Moreover, in order to mitigate the risk, the Bank partially insures with domestic and overseas reinsurers the portfolio of land designated for construction in a closed project and the portfolio of housing bonds and performance guarantees in financed projects.

In the Real Estate sector, a dedicated control unit implements controls and reviews various aspects with regard to handling of real estate transactions by the Bank, and credit operations are carried out at branches specializing in real estate. The unit also provides control and review with regard to rental real estate and purchase groups.

In the construction and real estate sector, a computer system for control and management of closed-assistance projects in this sector. The system is designed for assistance and monitoring of closed projects, releasing funds, improving control over the real estate portfolio and project maintenance.

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.

The percentage of sale contracts based on non-linear payment methods out of total sale contracts of new apartments including an assessment of the effects of those contracts on the project's financing costs is assessed on a regular basis as part of the projects' underwriting process and during the monitoring of the projects approved by the Bank. In addition, the Bank verifies that the supervisors take into account the scope of the contracts and their effects on financing costs. The project's cash flow and the need to revise the budgetary framework are monitored closely, and the Bank also closely monitors the development of the risk characteristics arising from this segment.

Credit risk data for the construction and real estate customers sector as of December 31, 2025 show that 59.2% of the on-balance sheet credit risk and 71.4% of the off-balance sheet credit risk is associated with closed financing to real estate projects, mostly for residential construction in areas of strong demand. Most of the off-balance sheet credit is due to housing bonds provided to apartment buyers.

Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment. Note that for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc.

Continued growth in lending to the real estate sector, even in view of competition, is achieved while adhering to appropriate underwriting procedures and credit spreads to reflect the risk and is regularly monitored. The risk level in this sector is also taken into account in the quarterly review process of the group-based provision.

## Credit risk in the construction and real estate sector

The assessment of the total impact of credit risks and sectoral 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-end financing). 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 is approx. 18.5%. Further interest rate cuts and sustained stabilization in security conditions may trigger a gradual recovery of demand in the sector. The Bank monitors the development of the industry's risk characteristics and the effects of changes on Bank operations, including monitoring the portfolio and focusing on risk concentrations such as non-linear purchase contracts and transaction cancellations; so far, no risk materialization has been identified in those risk concentrations.

# Risks Report

## As of December 31, 2025

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, 2025   |  |  |                  |                                     |                                    |   |            |           |
|---|--|--|------------------|-------------------------------------|------------------------------------|---|------------|-----------|
| Credit risk to the public <sup>(1)</sup>  |  |  |                  |                                     |                                    |   |            |           |
| On<br>balance<br>sheet <sup>(2)</sup>   | Credit risk                                    |  |                  |                                     | Total problematic<br>credit risk   | Balance of provision for<br>credit losses |            |           |
|   | Off<br>balance<br>sheet <sup>(3)</sup>         | Of<br>which:                           | Non-<br>accruing | Other<br>problematic <sup>(4)</sup> | On-balance<br>sheet credit<br>risk | Off-balance<br>sheet credit<br>risk       |            |           |
|   | Guarantees<br>to home<br>buyers <sup>(5)</sup> | Facilities and<br>other<br>commitments |                  |                                     |                                    |   |            |           |
| <b>Secured by real estate:</b>  |  |  |                  |                                     |                                    |   |            |           |
| Housing   | 30,954   | 7,070                                  | 23,131           | 61,155                              | 148                                | 69  | 186        | 29        |
| Commercial and industrial   | 12,053   | 199                                    | 2,841            | 15,093                              | 101                                | 107                                       | 160        | 3         |
| <b>Total secured by real estate</b>   | <b>43,007</b>                                  | <b>7,269</b>                           | <b>25,972</b>    | <b>76,248</b>                       | <b>249</b>                         | <b>176</b>                                | <b>346</b> | <b>32</b> |
| Not secured by real estate  | 9,735  | 9                                      | 10,285           | 20,029                              | 84                                 | 78  | 166        | 18        |
| <b>Total for construction and<br/>real estate economic sector<br/>in Israel</b> | <b>52,742</b>                                  | <b>7,278</b>                           | <b>36,257</b>    | <b>96,277</b>                       | <b>333</b>                         | <b>254</b>                                | <b>512</b> | <b>50</b> |
| Of which: Designated for<br>project assistance                                  | 31,197   | 7,258                                  | 23,805           | 62,260                              | 146                                | 58  | 37         | 30        |

| December 31, 2024   |  |  |                  |                                     |                                    |   |            |           |
|---|--|--|------------------|-------------------------------------|------------------------------------|---|------------|-----------|
| Credit risk to the public <sup>(1)</sup>  |  |  |                  |                                     |                                    |   |            |           |
| On<br>balance<br>sheet <sup>(2)</sup>   | Credit risk                                    |  |                  |                                     | Total problematic<br>credit risk   | Balance of provision for<br>credit losses |            |           |
|   | Off<br>balance<br>sheet <sup>(3)</sup>         | Of<br>which:                           | Non-<br>accruing | Other<br>problematic <sup>(4)</sup> | On-balance<br>sheet credit<br>risk | Off-balance<br>sheet credit<br>risk       |            |           |
|   | Guarantees<br>to home<br>buyers <sup>(5)</sup> | Facilities and<br>other<br>commitments |                  |                                     |                                    |   |            |           |
| <b>Secured by real estate:</b>  |  |  |                  |                                     |                                    |   |            |           |
| Housing   | 23,716   | 6,768                                  | 18,193           | 48,677                              | 342                                | 47  | 219        | 24        |
| Commercial and industrial   | 10,555   | 200                                    | 2,226            | 12,981                              | 152                                | 118                                       | 165        | 3         |
| <b>Total secured by real estate</b>   | <b>34,271</b>                                  | <b>6,968</b>                           | <b>20,419</b>    | <b>61,658</b>                       | <b>494</b>                         | <b>165</b>                                | <b>384</b> | <b>27</b> |
| Not secured by real estate  | 7,263  | 8                                      | 7,590            | 14,861                              | 100                                | 178                                       | 179        | 19        |
| <b>Total for construction and<br/>real estate economic sector<br/>in Israel</b> | <b>41,534</b>                                  | <b>6,976</b>                           | <b>28,009</b>    | <b>76,519</b>                       | <b>594</b>                         | <b>343</b>                                | <b>563</b> | <b>46</b> |
| Of which: Designated for<br>project assistance                                  | 23,400   | 6,948                                  | 17,956           | 48,304                              | 359                                | 94  | 44         | 24        |

(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.

# Risks Report

## As of December 31, 2025

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

|   | December 31                |                         |               |                            |                         |               |
|---|----------------------------|-------------------------|---------------|----------------------------|-------------------------|---------------|
|   | 2025                       |                         |               | 2024                       |                         |               |
|   | Credit risk <sup>(1)</sup> |                         |               | Credit risk <sup>(1)</sup> |                         |               |
|   | On<br>balance<br>sheet     | Off<br>balance<br>sheet | Of<br>which:  | On<br>balance<br>sheet     | Off<br>balance<br>sheet | Of<br>which:  |
| <b>Secured by real estate</b>                             |                            |                         |               |                            |                         |               |
| Real estate yet to be completely constructed:             |                            |                         |               |                            |                         |               |
| Raw land  | 19,269                     | 1,319                   | 20,588        | 15,156                     | 1,319                   | 16,475        |
| Real estate under construction                            | 15,400                     | 29,669                  | 45,069        | 9,992                      | 23,458                  | 33,450        |
| Real estate completely constructed                        | 8,338                      | 2,253                   | 10,591        | 9,123                      | 2,610                   | 11,733        |
| <b>Total credit secured by real estate in Israel</b>      | <b>43,007</b>              | <b>33,241</b>           | <b>76,248</b> | <b>34,271</b>              | <b>27,387</b>           | <b>61,658</b> |
| Not secured by real estate                                | 9,735                      | 10,294                  | 20,029        | 7,263                      | 7,598                   | 14,861        |
| <b>Total credit risk for construction and real estate</b> | <b>52,742</b>              | <b>43,535</b>           | <b>96,277</b> | <b>41,534</b>              | <b>34,985</b>           | <b>76,519</b> |

(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 to individuals

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 slowdown 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, 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 loans 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.

### Loans to small businesses

The micro and small business segment is highly diversified in terms of customers in various economic sectors, mostly in small industry, trade, business and financial services. Financing in the micro and small business segment is mostly provided for short terms, for current operations and for financing of working capital, covering gaps in cash flow, financing trade receivables, inventory and import activities. Such financing is provided against appropriate collateral, such as checks for collateral / checks receivable, invoices, pledging of contracts and current liens, and against external collateral if possible, such as deposits, real estate and owner's guarantees.

As part of the credit underwriting process, the Bank analyzes the merchant's business activity, including by comparison to their economic sector. In this regard, and subject to review of repayment capacity and repayment sources, the credit amount and type are customized for the customer needs.

Major risk factors in operations of the small business segment are: macro-economic deterioration which would result in recession, which would have across-the-board impact on businesses operating in this segment; dependence on key persons in the business (primarily owners and managers); dependence on individual suppliers / customers who may face default. The Bank regularly monitors the risk level in the credit portfolio for micro and small businesses, including through custom credit rating models and by monitoring high-risk economic sectors and setting guidelines and differential credit authorizations for different management levels. In order to optimally support these operations, the Bank acts to improve infrastructure, banking processes and credit underwriting processes.

### **Credit for medium and large businesses**

Loans to large business customers is typically less diversified than in other segments. These customers typically have complex financial activities and diverse financing sources, both from the banking system in Israel and overseas, from institutional investors and from the capital market. Collateral for such loans is typically general collateral, such as a current lien, negative pledge along with financial covenants. These customers are involved with various credit products, including credit for the capital market.

The medium business segment operates across all economic sectors, primarily industry, solar energy, commerce and services, construction and real estate.

Loans to medium businesses are typically highly diversified across customers, economic sectors and by geography. Financing is provided to this segment for current operations through financing of working capital, including financing of trade receivables and inventory, which is typically short-term financing, expansion and investment in the firm, which is typically medium- and long-term financing. This financing is backed by most existing collateral types, such as: deposits, securities, equipment, vehicles, current liens, various guarantees and personal guarantees. In addition, financial covenants are used for these customers, in order to mitigate risk.

The control functions of the Corporate Division are responsible for identification, assessment, measurement, monitoring, mitigation and reporting of risk inherent in products, activities, processes and systems under their responsibility, as well as for management of IT control systems and for maintaining an appropriate control environment with regard to risk management in the Division (hereinafter: "Control").

The control functions in the Corporate Division are responsible as follows:

- Division Control – responsible for control over credit extended to segments handled by the Division.
- Business credit control is responsible for control from multiple aspects:
  - Control over credit extended to Corporate Division customers. The division controller is also responsible for coordinating the Watch List Forum, to discuss accounts with risk characteristics, based on pre-determined parameters.
  - Responsible for use of computer mechanisms to flag accounts and customers, including based on information external to the Bank. The Department is responsible for control over business activity in accounts flagged due to risk indications, including for elaborating any deviations with the relevant front line credit staff (centers, sectors) and monitoring the elimination of such deviations.
- The Capital Market Exposure Control Unit – operations involving derivatives requires specific specialization and real-time control. This is due to the special nature of such activities and the exposure arising there from. The unit is responsible for control over customers specified in advance by the Corporate Division or by the various credit committees, for compliance with covenants and facilities.
- Compliance control – providing a professional response and training to Corporate Division staff with regard to compliance provisions and applying controls regarding compliance.

The Bank constantly monitors the risk level in the business credit portfolio using, *inter alia*, the Bank's criteria rating system. This system rates all debt of a single borrower to the Bank. The customer credit rating is determined by a process of determination of the business quality of the borrower, which is then combined with the collateral coverage ratio to provide a rating that reflects the quality of credit extended to the borrower.

### **Capital market**

Credit risk in the capital market is the risk of the borrower failing to meet their obligations towards the Bank, including the obligation to cover losses due to capital market activity conducted through the Bank.

Debt may arise from failure or loss from transactions made in the customer's trading activity on the capital market, through the Bank.

Major exposures to trading activity on the capital market include exposure with respect to credit transactions, short selling and exposure with respect to transactions involving derivatives through the Bank.

There are three major risk factors associated with customer activity on the capital market through the Bank:

- Credit risk for the Bank, arising from customer transactions or from the customer portfolio composition, which may result in exposures which the customer is unable to cover.
- Concentration risk, arising from over exposure to a borrower / borrower group or to certain types of activities.
- Operational risk which, should they materialize, may impact credit risk.

Exposure frameworks for capital market trading activity are approved in conformity with the credit authorization ranking at the Bank.

The Bank provides its customers with a range of facilities for trading activity on the capital market (credit against securities, facility for short selling securities, facility for exposure to derivatives). These exposures are backed by monetary collateral and/or by securities.

Customers engaged in speculative trading – The Bank allows exposure by customers engaged in speculative trading, only if they are experienced and have proven specialization in this area, based on controlled activity and receiving appropriate collateral. The capital market exposure unit closely monitors the activity and exposure of such Bank customers, including on aggregate.

In conformity with Proper Conduct of Banking Business Directive 330 concerning management of customer trading activity on the capital market, the Bank has specified an aggregate exposure limit for capital market customers, including an aggregate exposure limit for customers with significant speculative activity, as well as limit on activity in the capital market for a single customer. The exposure to credit risk inherent in trading activity of customers on the capital market, vs. the risk appetite, is reported on quarterly basis to management and to the Board of Directors.

## **Commercial credit**

The bank manages its commercial credit operations in multiple segments. The division into credit operating segments is supported by the Bank's organizational structure.

The decision making process with regard to extending commercial credit acts to minimize risk. To this end, an authorization hierarchy is set for officers and credit committees at various levels, up to the Board of Directors' Credit Committee and the Board of Directors. The authorizations specify and limit the approving entity by credit volume, outstanding credit volume, collateral received, determination of the quality and value of collateral, as well as authorization to set interest rates.

The credit volume applicable for the authorization ranking is determined based on the aggregate credit volume for all components of the borrower group of which the borrower is part, not just for the individual borrower.

Branch managers and other officers in the business departments have authorization with regard to extending credit. More material credit-granting decisions are mostly made by credit committees in order to minimize the risk in relying on the judgment of a single individual.

The authorization procedures list the exposure amount that each of the credit extending entities and various credit committees is authorized to approve, subject to other Bank procedures with regard to extending credit.

Moreover, an authorization ranking has been specified with regard to approval of collateral to be received, authorization to determine the diversification, quality of collateral and authorization to determine the value of collateral.

## Counter-party credit risk

### Qualitative disclosure of counter-party credit risk (CCRA)

The Bank defines counter-party risk as in Proper Conduct of Banking Business Directive 203A – as credit risk arising from transactions involving derivative financial instruments. As from July 1, 2022, data with regard to counter-party risk is calculated using the SACCR approach.

Counter-party credit risk (CCR) is the risk that the counter-party to a transaction will be in default before final clearance of the transaction cash flows, including receipts with respect to any counter-party obligation. Economic loss would be incurred only when the transaction with the counter-party would have a positive economic value upon such default. Counter-party risk may be affected by other risks, including: credit risk, market risk, liquidity risk, operating risk and reputation risk of the counter-party to the transaction. Counter-party risk has been defined as a material risk at the Bank. The Risk Manager is the Manager, Finance Division.

The Bank has set specific policies on addressing counter-party risk for financial institutions and sovereigns and another document, which is part of the Bank's credit policies, concerns customer activities in financial derivatives. The trading in derivatives is part of the Bank's management of assets and liabilities, and is subject to restrictions prescribed by the Board of Directors. The Bank trades in these derivatives, both for its customers and for its own account, as part of the management of basis and interest exposure in the various linkage segments. Various procedures ensure that the Bank may offer to customers a wide range of financial instruments – while maintaining an appropriate framework for addressing such risk.

Exposure to financial institutions and foreign countries involves multiple risk factors, including country risk with regard to economic standing, geo-political standing and transfer risk, arising from administrative restrictions on transfer of foreign currency. In these operations, the Bank's risk appetite, as included in the policy document, involves routing most of the proactive operations to developed nations rated A or higher and to major financial institutions in these countries. Operations are carried out while maintaining proper diversification of exposures to sovereigns and financial institutions. The Bank has very little business with less developed nations rated lower, primarily in response to customer needs.

Risk measurement is based on stress tests which are conducted regularly in view of specific restrictions imposed on activity with the counter-party as well as on aggregate, with restrictions on total portfolio exposure. In cases where a market price may not be quoted, pricing and exposure estimation are based on commonly used pricing models. For business with financial institutions and sovereigns, the Bank has developed a methodology for calculating facilities with each counter-party, based on the quality, rating and capital of such financial institutions and sovereigns.

In order to estimate exposure, the Bank uses diverse systems, as in its business operations, with control based on information available in these systems and on a special control system developed by the Bank to estimate customer exposure and to alert any deviations. The control mechanism for operations with foreign financial institutions relies on special reports created in the Bank's infrastructure system and exception reports generated to monitor business in Israel and overseas, including a Financial Institutions Report, which lists all exposures to banks as well as deviation reports, which reflect deviations from agreed facilities, if any. There are also automated mechanisms designed to flag deviations from trading limits with financial institutions and sovereigns, both in the trading room and in trading room control.

The Bank regularly adjusts its exposure to financial institutions and countries and regularly reviews publications regarding ratings of financial institutions to which the Bank is exposed, through the Financial Institution Relations Department of the Finance Division. Other indicators based on market benchmarks are regularly reviewed to alert any events which may indicate change in the financial standing of major financial institutions to which the Bank is exposed.

The Bank's current risk profile indicates that most of the Bank's exposure to counter-party risk is to foreign corporations and financial institutions. The Bank also has low exposure to sovereigns.

The Bank regularly reviews and monitors the action required to mitigate this risk.

**Restrictions and controls** – The Bank has operations involving financial derivatives, mostly vis-à-vis customers, which are required to maintain capital adequacy or to maintain collateral based on scenarios. These operations are regularly monitored by the Bank on intra-day basis by a dedicated control system developed by the Bank. The Bank has relatively little activity vis-à-vis customers who are mostly engaged in trading financial derivatives and short-selling or with customers who are not subject to capital requirements or collateral. These customers are closely monitored at a higher frequency than other customers.

At the Bank, a limit restriction applies for financial institutions and sovereigns, including reference to derivatives. Furthermore, a restriction applies to customer facilities based on certain parameters. The Corporate Division includes a dedicated department, specialized in control of exposure arising from capital market operations, which daily reviews customers active in this field. Trading room operations are also controlled, including testing of compliance with various restrictions prescribed by the Board of Directors and Executive Management.

# Risks Report

As of December 31, 2025

**Risk mitigation** - in order to participate in capital market activity, customers are required to provide collateral in accordance with Bank procedures. In its activities vis-à-vis financial institutions and sovereigns, the Bank signs ISDA agreements and CSA annexes. This allows for setting off transactions, so that the amount exchanged between parties to the transaction is limited to the net exposure amount, thereby reducing exposure of either party. CSA addendums regulate funds transfer between parties to a transaction whenever exposure reaches a certain pre-defined level, thereby reducing counter-party exposure.

In conformity with directives of the Supervisor of Banks (Appendix C to Directive 203), the Stock Exchange clearinghouse and the MAOF clearinghouse are classified as qualified central counter-parties for calculation of capital requirements with respect to exposure to central counter-parties. Moreover, in conformity with the Europe Market Infrastructure Regulation (EMIR) legislation, the Bank operates through a central clearinghouse, LCH Ltd. In transactions settled in this way (whether mandatory or voluntary), Bank exposure is to LCH, rather than to the original counter party. Moreover, LCH delivers all payments and margin funds between counter parties to the transaction through leading financial institutions, authorized to conduct clearing transactions with LCH ("Clearing Members"). The Bank uses three Clearing Members for these operations.

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

|  | As of December 31, 2025 |                           |  |  |              |
|--|-------------------------|---------------------------|--|--|--------------|
|  | Subrogation cost        | Future potential exposure | Alpha used to calculate regulatory EAD | Exposure after deduction of collateral | Risk assets  |
| Standard approach for counter-party risk (SA-CCR) (for derivatives)                      | 841                     | 5,121                     | 1.4                                    | 8,347                                  | 3,454        |
| Comprehensive approach to credit risk mitigation (for securities financing transactions) | -                       | -                         |  | 448                                    | 432          |
| <b>Total</b>   | <b>11,269</b>           | <b>5,121</b>              |  | <b>8,795</b>                           | <b>3,887</b> |
|  | As of December 31, 2024 |                           |  |  |              |
|  | Subrogation cost        | Future potential exposure | Alpha used to calculate regulatory EAD | Exposure after deduction of collateral | Risk assets  |
| Current exposure method  | 945                     | 5,316                     | 1.4                                    | 8,766                                  | 3,876        |
| Comprehensive approach to credit risk mitigation (for securities financing transactions) | -                       | -                         |  | 294                                    | 200          |
| <b>Total</b>   | <b>945</b>              | <b>5,316</b>              |  | <b>9,060</b>                           | <b>4,076</b> |

### Capital allocation with respect to credit risk valuation adjustment (CVA) (CCR2) (NIS in millions)

|  | As of December 31, 2025                |             | As of December 31, 2024                |             |
|--|--|-------------|--|-------------|
|  | Exposure after deduction of collateral | Risk assets | Exposure after deduction of collateral | Risk assets |
| Total – portfolios for which CVA is calculated using the standard approach | 8,347                                  | 1,536       | 8,766                                  | 1,421       |

# Risks Report

As of December 31, 2025

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

| Supervisory portfolio / risk weighting                     | As of December 31, 2025 |       |       |      | Total credit exposure |
|--|-------------------------|-------|-------|------|-----------------------|
|  | 0%                      | 20%   | 50%   | 100% |                       |
| Sovereigns   | -                       | 22    | -     | -    | 22                    |
| Public sector entities (PSE) other than central Government | -                       | -     | 20    | -    | 20                    |
| Banks (including multilateral development banks)           | -                       | 3,661 | 148   | -    | 3,809                 |
| Securities companies                                       | -                       | -     | 3,725 | -    | 3,725                 |
| Corporations   | -                       | -     | 38    | 712  | 750                   |
| Supervisory retail portfolios                              | -                       | -     | -     | 20   | 20                    |
| Other assets   | -                       | -     | -     | -    | -                     |
| <b>Total</b>   | -                       | 3,683 | 3,931 | 732  | 8,347                 |

| Supervisory portfolio / risk weighting                     | As of December 31, 2024 |       |       |      | Total credit exposure |
|--|-------------------------|-------|-------|------|-----------------------|
|  | 0%                      | 20%   | 50%   | 100% |                       |
| Sovereigns   | -                       | 25    | -     | -    | 25                    |
| Public sector entities (PSE) other than central Government | -                       | -     | 30    | -    | 30                    |
| Banks (including multilateral development banks)           | -                       | 3,033 | 201   | -    | 3,234                 |
| Securities companies                                       | -                       | -     | 4,680 | -    | 4,680                 |
| Corporations   | -                       | -     | 1     | 784  | 785                   |
| Supervisory retail portfolios                              | -                       | -     | -     | 12   | 12                    |
| Other assets   | -                       | -     | -     | -    | -                     |
| <b>Total</b>   | -                       | 3,058 | 4,912 | 796  | 8,766                 |

# Risks Report

As of December 31, 2025

Composition of collateral with respect to exposure to counter-party credit risk<sup>1</sup> (CCR) (5CCR) (NIS in millions)

|                           | As of December 31, 2025                     |                  |                                    |                  |  |                                    |
|---------------------------|---|------------------|------------------------------------|------------------|--|------------------------------------|
|                           | Collateral used in derivatives transactions |                  |                                    |                  | Collateral used in securities financing transactions |                                    |
|                           | Fair value of collateral received           |                  | Fair value of collateral deposited |                  | Fair value of collateral received                    | Fair value of collateral deposited |
|                           | Disconnected                                | Not disconnected | Disconnected                       | Not disconnected |  |                                    |
| Cash – local currency     | -   | 1,748            | -                                  | 249              | 8,945  | -                                  |
| Cash – other currency     | -   | 1,644            | -                                  | 2,528            | 4  | -                                  |
| Domestic sovereign debt   | -   | 573              | -                                  | -                | 5  | -                                  |
| Other sovereign debt      | -   | 23               | -                                  | -                | -  | -                                  |
| Debt of Government agency | -   | -                | -                                  | -                | -  | -                                  |
| Corporate bonds           | -   | 20               | -                                  | -                | 64   | -                                  |
| Shares                    | -   | 349              | -                                  | -                | 5,442  | -                                  |
| Other collateral          | -   | -                | -                                  | -                | -  | -                                  |
| <b>Total</b>              | <b>-</b>                                    | <b>4,356</b>     | <b>-</b>                           | <b>2,777</b>     | <b>14,461</b>  | <b>-</b>                           |

|                           | As of December 31, 2024                     |                  |                                    |                  |  |                                    |
|---------------------------|---|------------------|------------------------------------|------------------|--|------------------------------------|
|                           | Collateral used in derivatives transactions |                  |                                    |                  | Collateral used in securities financing transactions |                                    |
|                           | Fair value of collateral received           |                  | Fair value of collateral deposited |                  | Fair value of collateral received                    | Fair value of collateral deposited |
|                           | Disconnected                                | Not disconnected | Disconnected                       | Not disconnected |  |                                    |
| Cash – local currency     | -   | 2,031            | -                                  | 34               | 5,486  | -                                  |
| Cash – other currency     | -   | 1,586            | -                                  | 576              | 4  | -                                  |
| Domestic sovereign debt   | -   | 370              | -                                  | -                | 1  | -                                  |
| Other sovereign debt      | -   | 4                | -                                  | -                | -  | -                                  |
| Debt of Government agency | -   | -                | -                                  | -                | -  | -                                  |
| Corporate bonds           | -   | 17               | -                                  | -                | 24   | -                                  |
| Shares                    | -   | 714              | -                                  | -                | 4,006  | -                                  |
| Other collateral          | -   | -                | -                                  | -                | -  | -                                  |
| <b>Total</b>              | <b>-</b>                                    | <b>4,722</b>     | <b>-</b>                           | <b>610</b>       | <b>9,521</b>   | <b>-</b>                           |

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

# Risks Report

As of December 31, 2025

## Exposures to credit derivatives (CCR6) (NIS in millions)

|                                  | December 31, 2025      |                    |
|----------------------------------|------------------------|--------------------|
|                                  | Protection<br>acquired | Protection<br>sold |
| <b>Stated amounts</b>            |                        |                    |
| Single-name credit default swaps | -                      | -                  |
| Credit options                   | 2                      | -                  |
| Other credit derivatives         | -                      | -                  |
| <b>Total – stated amounts</b>    | <b>2</b>               | <b>-</b>           |
| <b>Fair value – values</b>       |                        |                    |
| Positive fair value (asset)      | 16                     | -                  |
| Negative fair value (liability)  | -                      | -                  |

|                                  | December 31, 2024      |                    |
|----------------------------------|------------------------|--------------------|
|                                  | Protection<br>acquired | Protection<br>sold |
| <b>Stated amounts</b>            |                        |                    |
| Single-name credit default swaps | -                      | -                  |
| Credit options                   | 2                      | -                  |
| Other credit derivatives         | -                      | -                  |
| <b>Total – stated amounts</b>    | <b>2</b>               | <b>-</b>           |
| <b>Fair value – values</b>       |                        |                    |
| Positive fair value (asset)      | 15                     | -                  |
| Negative fair value (liability)  | -                      | -                  |

## Exposures to central counter parties (CCR8) (NIS in millions)

|   | As of December 31, 2025                      |                |
|---|--|----------------|
|   | Exposure after<br>deduction of<br>collateral | Risk<br>assets |
| <b>Exposures to qualified central counter-party (total)</b>   | 1,296  | 21             |
| Exposures to transactions with QCCP (excluding initial collateral and transfers to risk reserve), of which: |  |                |
| OTC derivatives   | 972  | 19             |
| Transactions in derivatives traded on the stock exchange  | -  | -              |
| Initial non-disconnected collateral   | 972  | 19             |
| Funded transfers to risk reserve  | -  | -              |
| Unfunded transfers to risk reserve  | 324  | 2              |
|   | -  | -              |

|   | As of December 31, 2024                      |                |
|---|--|----------------|
|   | Exposure after<br>deduction of<br>collateral | Risk<br>assets |
| <b>Exposures to qualified central counter-party (total)</b>   | 1,331  | 38             |
| Exposures to transactions with QCCP (excluding initial collateral and transfers to risk reserve), of which: |  |                |
| OTC derivatives   | 1,036  | 38             |
| Transactions in derivatives traded on the stock exchange  | -  | -              |
| Initial non-disconnected collateral   | 611  | 12             |
| Funded transfers to risk reserve  | -  | -              |
| Unfunded transfers to risk reserve  | 295  | -              |
|   | -  | -              |

## Market risk

### General information about market and interest risk

Market risk – This is the risk of loss from on- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities). The Bank has is not exposed to commodities and its exposure to equities is immaterial; thus, the Bank's major exposure to market risk is due to basis risk – the risk arising due to Bank assets and liabilities being denominated in different currencies or linked to different linkage bases – and to interest risk.

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.

Description of market risks to which the Bank is exposed:

1. Interest risk consists of four major risk factors:
  - A. Repricing risk – This risk is due to timing differences in term to maturity (fixed interest) and in repricing dates (variable interest) of assets, liabilities and off-balance sheet positions. Mismatch of repricing dates may expose Bank profit and the value of Bank assets to unexpected fluctuations due to changes to interest rates.
  - B. Yield curve risk – This risk arises from unexpected shifting of the yield curve. Changes to links between interest rates for different terms are reflected in a change in curve slope (steepness) or shape (twist) and negatively impact the Bank's profit or economic valuation.
  - C. Basis risk – Risk arising from imperfect correlation in changes to interest rates in different financial markets, or in different instruments with similar repricing features. Differences in changes to interest rates may result in changes to cash flows and revenue spread between assets, liabilities and off-balance sheet instruments with a similar term to maturity, which are seemingly hedged.
  - D. Optionality risk – This risk is inherent in cash flows where the behavioral maturity differs from the contractual one. The risk arises from change in timing or extent of cash flow, due to changes in macro-economic conditions (such as changes to market interest rates). This risk is inherent in options embedded in the asset portfolio (such as early mortgage repayment), liability portfolio (such as deposit withdrawal at exit points) and in off-balance sheet instruments. These options entitle the customer to buy / sell or modify the financial instrument.
2. Exchange rate / inflation risk – This is the risk to Bank profit, arising from fluctuations in exchange rates / in the Consumer Price Index (due to currency mis-match between assets and liabilities).
3. Position risk in shares – This is the risk to Bank profit, arising from impairment of investment in shares.

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 "Management of Interest Risk" and Proper Conduct of Banking Business Directive 208 "Capital Measurement and Adequacy", with regard to capital allocation under Pillar 1 with respect to the trading portfolio, as described below.

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 negotiable portfolio are subject to restrictions which reflect low risk appetite and therefore, the Bank's capital allocation with respect to market risk is very low.

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.

The overall risk level of market and interest risk remained Low-Medium. Interest risk remained medium, and reflects the interest rate environment and the potential impact on borrowers and depositors' behavior, in particular the transfer of funds from current accounts to deposits and changes to mortgage mixes in the direction towards channels which are less sensitive to changes in interest rates. The risk values are within the limits of the Bank's risk appetite.

As of December 31, 2025, no deviations from the risk appetite limits were recorded.

For more information regarding market risk, see the Market and interest risk chapter in the Report of the Board of Directors and Management for 2025.

## Strategies, policies and processes

The policy document for management of market and interest risks 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. 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, divided into two major risk concentrations:

- 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 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, 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.

## Policy on determination whether a position is designated for trading

The Bank operates in conformity with Proper Conduct of Banking Business Directive 208, which incorporates the Basel Committee directives with regard to definitions, management and revaluation of the trading portfolio. Inclusion of an instrument and/or position in the trading portfolio is subject to compliance with objective criteria (free of any treaty which restricts their negotiability or which may be fully hedged) and subjective criteria set forth in the regulation, i.e. there is trading intent or hedging of other components in the trading portfolio, active portfolio management and frequent, accurate valuation of the portfolio.

Classification under the trading portfolio is part of Bank policy, and the trading portfolio primarily consists of all portfolios managed by the Trading Room (bond trading portfolio of the Interest Trade Unit (market maker), in the Bank's nostro units, derivative transactions classified under Trading Room portfolios (and options), as well as trading portfolios of bonds held for trading and strategy in Israeli and foreign currency, managed by the Asset Management Department, as well as derivatives used for executing strategies. The portfolio also includes hedging transactions for instruments included in the trading portfolio. The trading portfolio is exposed, *inter alia*, to the following risk factors: Foreign exchange exposures, interest exposures and options-related exposures.

In general, all derivatives transactions are conducted by the Trading Room, with external counter-parties and are classified under the trading portfolio when contracted. The transactions classified to the bank portfolio are specific transactions which, prior to conducting them, a decision was made and documented to conduct them for the bank portfolio.

## Policy for management of exposures to linkage segments

Currency exposures – It is Bank policy to maintain minimal (operating) currency positions, except for specific strategic positions approved by the different committees and/or ForEx positions in the trading portfolio, managed by the Trading Room and/or the Nostro Unit, subject to relatively low exposure limits specified. 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.

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 also measured 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.

## Organizational structure of market and interest risk management function

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.

Upon any unusual occurrence in the capital market, such as an unexpected change in interest rates, fluctuations in the foreign currency markets, changes in fiscal and/or monetary policies, the special committees and forums created by the Bank for such situations, convene for a special discussion in order to reach the decisions required by these occurrences.

Below is the organizational structure created at the Bank for management and control of market and interest risk:

**Bank Board of Directors** – The Bank Board of Directors approves, at least once per year, the policy documents which stipulate the management of exposures to market and interest risks in the Bank's portfolio. The policy on management of market and interest risks, management of the nostro portfolio and a dedicated trading-room policy, after discussion and approval by the Risk Management Committees of the Finance Division, the Risk Monitoring Forum headed by the CRO, by Bank management and by the Board of Director's Risk Management Committee. The documents outline, among other things, the authorization hierarchy for market risks management, the risk appetite (exposure caps), the key models and work assumptions used to measure the risk-weighted values and the frequency of discussions and reporting of exposure status at different levels. The risk appetite framework specified by the Board of Directors was broadened by management guidelines (restrictions), set lower than the Board of Directors restrictions, in order to allow exposure to be reduced even before it deviates from the risk appetite specified by the Board of Directors. The risk appetite is specified under normal and stress conditions, by a range of benchmarks which restrict market risk; in addition, specific risk appetite benchmarks were specified with respect to interest risk in the bank portfolio and with respect to Bank activity in the trading portfolio. The Board of Directors restrictions and management guidelines reflect the risk appetite, which is consistent with the Bank's overall risk appetite, business strategy, liquidity planning, financing sources and capital planning at the Bank. The market and interest risk profile in the bank portfolio is presented to the Bank's Board of Directors using the Bank's quarterly Risks Document. The discussion by the Board of Directors covers the development of the risk profile in key transactions executed by the Bank in the different portfolios during the reviewed period and of market developments, in particular risks in markets in Israel and overseas which may potentially impact the business profile of Bank operations and its market and interest risk profile in the Bank portfolio and Bank's sensitivity to changes in risk factors. The Bank maintains interfaces vis-à-vis subsidiaries with regard to setting risk appetite for the Group.

**The Bank President & CEO** – heads the Asset and Liability Management Committee (ALMC), which is the advisory entity to the President & CEO with regard to market and interest risks. This committee generally meets once a month, or more frequently, when special developments in the various markets occur or are forecast. The Bank President & CEO is responsible for setting policy and guidelines for exposure, subject to exposure limits approved by the Board of Directors. This includes regular monitoring of the risk-weighted values, model assumptions, and making business decisions with regard to management of market and interest exposures, approval of proactive exposure strategies, hedging and risk mitigation moves and new products for management of market and interest risk under the management approval track.

### First line of defense – Lines of business management

The head of the Finance Division (CFO) manages all financial risk at the Bank, including market and interest risk. The internal Risks Management Committee serves as the advisory body for the Division Manager; it convenes weekly to discuss current aspects of the management of assets and liabilities, the development of risk-weighted values, work assumptions and the various models for estimating the risk-weighted values. This committee is also attended by representatives of the Risks Management Division.

The Manager, Finance Division specifies guidelines for current operations of market and interest risks management, subject to restrictions specified by the Board of Directors and by management.

When a financial event is identified and declared, which requires special preparation, the Manager, Finance Division convenes – with approval of the President & CEO, a special forum to discuss and make decisions on how to handle the event. The operation of this forum is incorporated in a specific procedure.

## Second line of defense – Risks Management Function

The Manager, Risks Management Division (the Chief Risks Officer – CRO) is responsible for the overall Risk Owner framework. The Market, Interest and Liquidity Risk Monitoring Forum, serves as the advisory body to the Chief Risks Officer with regard to management of the Bank's exposure to market and interest risks in the Bank portfolio. The Forum, whose members include, among others, representatives from the Finance Division and the Risk Management Division, regularly monitors the market and interest risk profile of both the Bank portfolio and the trading portfolio, including individual activity in the trading room, results of stress scenarios and back-testing. Furthermore, the forum discusses and approves risk management and control methodologies, including measurement methods, work assumptions and the models, which support portfolio monitoring and management activities. The forum addresses the various aspects of risk management and control of market and interest risks, including conclusions derived from validation processes of the relevant models, conducted by the Risk Management Division; control and monitoring of market and interest exposures are carried out as part of the second line of defense by: Financial Risks Management Unit of the Risks Management Division.

## Third line of defense – Internal Audit

Internal Audit serves as the third line of defense within corporate governance for risks management at the Bank, conducting regular control to review and assess the effectiveness of internal controls at the Bank, in accordance with the multi-annual work plan of the Internal Audit Division.

## Market risk management and measurement tools

Measurement of market risk is supported by a wide range of information systems, models, processes, risk indicators and stress tests. The models and information systems involved in the calculation are regularly reviewed, through internal controls processes at the Bank, including continuous validation processes.

Market risk in both portfolios (bank and trading) are managed on an aggregate basis using the VAR model and stress tests. The Bank operates within the risk appetite set by the Board of Directors for market and interest risks using the VAR model and stress tests.

The risk appetite stipulates that the VAR for all of the Bank's activities in one-month investments, will not exceed 9% of shareholders' equity, and that the maximum loss in stress tests, the highest of all calculation methods, will not exceed 14.5% of equity. Management has also specified guidelines for these two restrictions. The Bank maintains a risk profile that is within these restrictions. For application of these models, the Bank's available capital is defined as a non-linked NIS-denominated source.

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.

Stress tests – These are various methods designed to estimate the Bank's expected loss as a result of sharp fluctuations in prices of market risks factors. The methods used in the Bank's stress scenario rely, among other things, on past stress events and scenarios as well as on scenarios stipulated by the Bank of Israel in the new Directive 333 for interest risk management, where the yield curve shifts along the curve in parallel at rates of up to 4%.

# Risks Report

As of December 31, 2025

## Market risk using the standard approach

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

|  | Risk assets as of:   |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2025 | December 31,<br>2024 |
| <b>Direct products</b>                         |                      |                      |
| Interest rate risk (general and specific)      | 1,945                | 1,492                |
| Position risk in shares (general and specific) | 59                   | 44                   |
| Foreign currency risk                          | 101                  | 122                  |
| Commodities risk                               | -                    | -                    |
| Options  | -                    | -                    |
| Delta Plus approach                            | 21                   | 17                   |
| Securitization                                 | -                    | -                    |
| <b>Total</b>                                   | <b>2,126</b>         | <b>1,675</b>         |

Exposure in the trading portfolio is low, and mostly due to interest risk.

## **Additional information about market risk**

### **Financial derivatives**

Operations involving financial derivatives are conducted in the trading room, both for trading portfolios managed in the trading room and for various customers, including for the financial management sector, to hedge exposures in the bank portfolio. Operations involving financial derivatives pose a range of risks, primarily the following: Market risks, managed as part of market and interest risk management in the trading portfolio and in the bank portfolio, operational risk and compliance risk, managed under the overall management framework of operational risk and compliance risk, including administrative enforcement and counter-party credit risk. Counter-party credit risk vs. different entities is managed in conformity with Bank policy on counter-party credit risk management, as set forth above in chapter "Counter-party credit risk" and in chapter "Credit" with regard to the capital market segment.

### **Management of positions in trading portfolio**

The trading portfolio mostly consists of portfolios managed by the trading room and the nostro unit, subject to exposure limits by various risk benchmarks based, among other things, on scenarios involving changes to risk factors. Risk is measured during the trading day and at the end of the trading day. Risk is managed by the trading room and is constantly monitored, intra-day and daily, by the Trading Room Control Department and projects in the Finance Division. Monitoring and control processes are also conducted by the Financial Risks Management Unit of the Risks Management Division.

The Bank operates a committee for management of operational risk in the trading room, which discusses bi-monthly the operations of the trading room, compliance with risk limits, measuring profit vs. risk, unusual events and so forth. Reports of this activity are also presented to management's Asset and Liability Management Committee and in the quarterly Risks Document discussed by the Board of Directors.

### **Developments in market risk**

Risk values in the different benchmarks (analysis of interest risk in Bank portfolio) indicate exposure in economic fair value to higher interest rates, due to the position structure composed of uses for medium and long terms vs. sources for short to medium terms. Risk values were affected both by current mortgage performance and deposit operations, as well as proactively conducting transactions involving derivatives and activity in the bond portfolio.

## Interest risk in bank portfolio and in trading portfolio

### Targets and objectives in management of interest risk in the bank portfolio

#### Definition of interest risk in the bank portfolio for the purpose of risk control and measurement

The bank portfolio constitutes most of the activity which gives rise to interest risk for the Bank.

#### Management of interest risk in the bank portfolio and risk mitigation strategies

Management of interest risk is in conformity with Proper Conduct of Banking Business Directive 333. The directive requires the Bank to measure risk by several measurement methods (but one primary method may be chosen for regular management purposes), the measurement systems are required to support measurement of interest risk in the entire portfolio, as well as separately in the bank portfolio and in the trading portfolio. The directive requires banks to apply a range of scenarios to estimate risk, but also defines a "standard shock scenario", where exceptional results of such scenario must be immediately reported to the Supervisor of Banks.

Interest risk is managed using two approaches: The economic value approach and the earnings approach.

**The economic value approach - the Economic Value of Equity (EVE) model** is the Bank's main model for estimating interest risk in the bank portfolio. The EVE model reviews the effect of changes to interest rate curves on the economic value of the bank portfolio under various assumptions with regard to changes in interest rate curves both in the ordinary course of business and under stress scenarios (by operating segment, such as: derivatives, deposits and mortgages, by linkage basis).

The economic value is calculated as the present value of cash flows from Bank assets (exposed to changes in interest rates), net of the present value of cash flows from Bank liabilities (exposed to changes in interest rates). The change in economic value due to changes in interest rate curves (the EVE benchmark) is calculated as the difference between future cash flows of asset and liabilities discounted at current interest rates, and the difference discounted at expected interest rates under interest rate scenarios. Future forecasting of financial instruments is made in conformity with generally accepted practice around the world for calculating fair value.

The Bank consolidated the EVE measurement method with a calculation method of a table representing the "impact of scenarios of changes in interest rates on net adjusted fair value" in line with the guidance under Directive 333.

**The earnings approach - the Net Interest Income (NII) model** assesses the sensitivity of net interest income to changes in interest rates. The metric assesses the expected profit / loss for the calculation period under different assumptions of changes in the risk-free interest rate curves.

The net interest income model is applied in a parallel scenario (according to the selected currency) and in a stress scenario (+/-3%, +/-4%) and for three balance sheet types: Constant, dynamic and run-off balance sheet. In the constant balance sheet, like-for-like replacement of assets and liabilities as they run off is assumed, in the run-off balance sheet it is assumed that existing assets and liabilities are not replaced as they mature, and in the dynamic balance sheet balances of assets and liabilities are replaced based on the Bank's work plan.

The calculation is made using advanced computer systems developed by the Bank. This model serves as a decision support system for Risk Managers at the Bank.

### Description of key assumptions in various models and parameters used for calculation

Calculation of net fair value of financial instruments:

- Fair value was calculated based on estimates with regard to the possibility of early repayment, based on statistical / 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, where interest terms are known in advance, are based on empirical analysis and are reviewed and revised from time to time.
- Checking account balances are attributed using a statistical model which reflects their nature as a stable source.

Change in interest revenues, net:

- This calculation reviews annual financing profitability (12 months ahead) under a scenario of change to risk-free interest rate and assuming refinancing of all balances maturing up to the end of the calculation period.
- Assumptions for creating future cash flows in this model: Forecasting covers all Bank activity (on-balance sheet, derivatives and investment of excess liquidity) for a one-year period, based on behavioral options such as early repayment of mortgages, early withdrawal of deposits and forecasting of credit balances in current accounts. The change in revenues also includes an estimate for the early repayment commission.

At least once a year, the Bank reviews all underlying assumptions of models used to mitigate market and interest risks, with an emphasis on behavioral assumptions made in order to determine positions in certain instruments.

The sensitivity of risk-weighted values to changes in behavioral assumptions are reviewed regularly, including the breakdown of each assumption individually and of all assumptions collectively.

The results of the sensitivity analyses are presented regularly in the Board of Directors and management's risk management forums.

### Interest risk mitigation processes in bank portfolio

A major tool for management and mitigation of interest risk is setting fund transfer pricing at the Bank (FTP). Fund transfer prices (FTP) are determined daily at the Bank by the Asset and Liability Management Department 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 department also manages the interest and/or basis position through FX contracts, swap transactions and options. The advantages of using these tools stem from the ability of rapid execution at large amounts, which allows the Bank to "move positions" within a reasonable time frame for asset and liability management. In addition, these transactions are unfunded, are highly liquid and are conducted through the Bank's trading room.

Derivatives transactions are identified as hedging balance sheet positions in accordance with accounting principles. 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. Hedge effectiveness is tested quarterly.

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. This effect is regularly monitored and managed subject to guidelines set by management.

### Restrictions of models used by the Bank to manage market and interest risk

The main models used by the Bank to estimate market and interest risk, as with all models, have restrictions which may be due to model assumptions, input values used or mismatch between the models and market conditions, in particular with regard to stress conditions. The Bank is aware of these restrictions and therefore backs these models with other tools and processes.

The risk benchmarks measure the change in the Bank's economic value (both the VAR benchmark and stress scenarios, and the EVE benchmark under the various scenarios), estimate risk under a standalone and static assumption of a one-off stable change over the entire life of all existing assets and liabilities at the Bank at the measurement point, without any management intervention in the form of hedging measures / any changes to exposures. Furthermore, to complement the economic capital approach, the Bank estimates the effect of interest risk using the earnings method as well, over a shorter term, and as part of management of the Bank's financing work plans.

another limitation is the use of behavioral models to create forecasted cash flows of instruments which include such components. The Bank, a substantial percentage of the balance sheet thereof is composed of residential mortgages, relies on behavioral models both for projecting the future inflows of mortgage proceeds and for projecting current account balances and balances of deposits in which the customer has an early-withdrawal option.

# Risks Report

## As of December 31, 2025

The Bank assesses these limits both through continuous validation processes of models used by the Bank, which assess all model components, and through regular execution of sensitivity testing to the results of the estimation of risk-weighted values under various behavioral assumptions, including a complete breakdown of the assumptions.

### Analysis of interest risk in bank portfolio

Below is the effect<sup>(1) (2)</sup> of a parallel shift of the curve in parallel standard scenario on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

|   | <b>December 31, 2025</b>    |                          |                         |            |              |              |
|---|-----------------------------|--------------------------|-------------------------|------------|--------------|--------------|
|   | <b>Change in fair value</b> |                          |                         |            |              |              |
|   | <b>Israeli currency</b>     |                          | <b>Foreign currency</b> |            |              |              |
|   | <b>Non-linked</b>           | <b>Linked to<br/>CPI</b> | <b>USD</b>              | <b>EUR</b> | <b>Other</b> | <b>Total</b> |
| A parallel standard scenario - increase | (2,418)                     | (1,215)                  | 79                      | 62         | 33           | (3,633)      |
| A parallel standard scenario - decrease | 2,497                       | 1,497                    | (22)                    | (69)       | (37)         | (128)        |
|   | <b>December 31, 2024</b>    |                          |                         |            |              |              |
| A parallel standard scenario - increase | (2,717)                     | (1,205)                  | (83)                    | 66         | 29           | (3,922)      |
| A parallel standard scenario - decrease | 2,689                       | 1,265                    | (187)                   | (70)       | (32)         | (289)        |

(1) Calculated based on current data used for actual interest risk management.

(2) In accordance with Proper Conduct of Banking Business Directive 333, as from the third quarter of 2025, the reported scenario results in each currency is based on a different parallel scenario - 2.5% in NIS, 1.5% in linked NIS and 2% in US Dollar and Euro.

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.

Below is the VAR for the Bank Group (NIS in millions):

|                             | <b>2025</b>      | <b>2024</b>  |
|-----------------------------|------------------|--------------|
| At end of period            | 1,090            | 1,487        |
| Maximum value during period | (May) 1,645      | (Feb.) 1,734 |
| Minimum value during period | (November) 1,062 | (Sep.) 1,409 |

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.

## Quantitative information about interest risk in bank portfolio and in trading portfolio

Net adjusted fair value<sup>1</sup> of financial instruments of the Bank and subsidiaries thereof (NIS in millions):

|   | As of December 31, 2025 |                      |                  |              |               |
|---|-------------------------|----------------------|------------------|--------------|---------------|
|   | NIS – Non-<br>linked    | NIS – CPI-<br>linked | Foreign currency |              |               |
|   |                         |                      | USD              | Other        | Total         |
| Financial assets <sup>(2)</sup>   | 383,043                 | 91,424               | 49,259           | 11,231       | 534,957       |
| Other amounts receivable with respect to financial derivatives, complex and off-balance sheet financial instruments | 279,760                 | 3,191                | 282,334          | 28,255       | 593,540       |
| Financial liabilities <sup>(2)</sup>  | (360,947)               | (66,706)             | (66,354)         | (10,743)     | (504,750)     |
| Other amounts payable with respect to financial derivatives, complex and off-balance sheet financial instruments    | (297,530)               | (2,703)              | (264,999)        | (29,043)     | (594,275)     |
| <b>Net fair value of financial instruments</b>  | <b>4,326</b>            | <b>25,206</b>        | <b>240</b>       | <b>(300)</b> | <b>29,472</b> |
| Effect of liabilities with respect to employee rights   | (711)                   | (1,238)              | (5)              | -            | (1,954)       |
| Effect of attribution to terms of non-maturity deposits   | 4,151                   | -                    | 329              | 121          | 4,601         |
| <b>Adjusted net fair value</b>  | <b>7,766</b>            | <b>23,968</b>        | <b>564</b>       | <b>(179)</b> | <b>32,119</b> |
| Of which: Banking portfolio   | 1,458                   | 12,743               | (3,431)          | 1,437        | 12,207        |
| Of which: Effect of early repayment of residential mortgages  | 311                     | (849)                | (3)              | (30)         | (571)         |
| Of which: Effect of attribution of deposits to terms after the next withdrawal date                                 | (208)                   | 41                   | -                | -            | (167)         |

|   | As of December 31, 2024 |                      |                  |              |               |
|---|-------------------------|----------------------|------------------|--------------|---------------|
|   | NIS – Non-<br>linked    | NIS – CPI-<br>linked | Foreign currency |              |               |
|   |                         |                      | USD              | Other        | Total         |
| Financial assets <sup>(2)</sup>   | 324,929                 | 90,837               | 44,583           | 9,670        | 470,019       |
| Other amounts receivable with respect to financial derivatives, complex and off-balance sheet financial instruments | 281,379                 | 5,771                | 264,576          | 27,369       | 579,095       |
| Financial liabilities <sup>(2)</sup>  | (307,012)               | (58,127)             | (64,434)         | (13,554)     | (443,127)     |
| Other amounts payable with respect to financial derivatives, complex and off-balance sheet financial instruments    | (303,067)               | (7,256)              | (244,360)        | (24,009)     | (578,692)     |
| <b>Net fair value of financial instruments</b>  | <b>(3,771)</b>          | <b>31,225</b>        | <b>365</b>       | <b>(524)</b> | <b>27,295</b> |
| Effect of liabilities with respect to employee rights   | (747)                   | (1,203)              | (5)              | -            | (1,955)       |
| Effect of attribution to terms of non-maturity deposits   | 4,674                   | -                    | 357              | 237          | 5,268         |
| <b>Adjusted net fair value</b>  | <b>156</b>              | <b>30,022</b>        | <b>717</b>       | <b>(287)</b> | <b>30,608</b> |
| Of which: Banking portfolio   | (2,574)                 | 24,535               | 1,733            | (2,819)      | 20,875        |
| Of which: Effect of early repayment of residential mortgages  | 728                     | (963)                | (10)             | (30)         | (275)         |
| Of which: Effect of attribution of deposits to terms after the next withdrawal date                                 | (52)                    | 75                   | -                | -            | 23            |

See footnotes in the next page.

# Risks Report

## As of December 31, 2025

Impact of change scenarios in interest rates on net adjusted fair value<sup>1</sup> of the Bank and its subsidiaries (NIS in millions):

|  | As of December 31, 2025 |            |                  |       |         | As of December 31, 2024 |            |                  |       |         |
|--|-------------------------|------------|------------------|-------|---------|-------------------------|------------|------------------|-------|---------|
|  | NIS –                   |            | Foreign currency |       |         | NIS –                   |            | Foreign currency |       |         |
|  | Non-linked              | CPI-linked | USD              | Other | Total   | Non-linked              | CPI-linked | USD              | Other | Total   |
| <b>Concurrent 1% changes</b>   |                         |            |                  |       |         |                         |            |                  |       |         |
| Concurrent 1% increase   | (1,309)                 | (480)      | 74               | (22)  | (1,737) | (1,274)                 | (720)      | (134)            | 5     | (2,123) |
| Of which: Banking portfolio  | (1,311)                 | (471)      | 89               | (22)  | (1,715) | (1,267)                 | (705)      | (119)            | 4     | (2,087) |
| Effect of attribution to terms of non-maturity deposits  | 1,001                   | -          | 141              | 52    | 1,194   | 1,459                   | -          | 188              | 125   | 1,772   |
| Of which: Effect of early repayment of residential mortgages   | 2,122                   | 1,008      | -                | 3     | 3,133   | 1,684                   | 1,053      | 1                | 3     | 2,741   |
| Of which: Effect of attribution of deposits to terms after the next withdrawal date                                      | (96)                    | (109)      | -                | -     | (205)   | (107)                   | (76)       | -                | -     | (183)   |
| Concurrent 1% decrease   | 981                     | 356        | (62)             | 30    | 1,305   | 944                     | 595        | (177)            | (4)   | 1,358   |
| Of which: Banking portfolio  | 977                     | 345        | (79)             | 29    | 1,272   | 934                     | 580        | (193)            | (2)   | 1,319   |
| Effect of attribution to terms of non-maturity deposits  | (1,064)                 | -          | (150)            | (56)  | (1,270) | (1,563)                 | -          | (200)            | (133) | (1,896) |
| Of which: Effect of early repayment of residential mortgages   | (2,624)                 | (1,232)    | -                | (4)   | (3,860) | (2,072)                 | (1,285)    | (1)              | (3)   | (3,361) |
| Of which: Effect of attribution of deposits to terms after the next withdrawal date                                      | 100                     | 119        | -                | -     | 219     | 112                     | 85         | -                | -     | 197     |
| <b>Additional interest-rate scenarios in accordance with Proper Conduct of Banking Business Directives<sup>(3)</sup></b> |                         |            |                  |       |         |                         |            |                  |       |         |
| Concurrent increase  | (2,808)                 | (842)      | 165              | (41)  | (3,526) |                         |            |                  |       |         |
| Of which: Banking portfolio  | (2,826)                 | (831)      | 190              | (41)  | (3,508) |                         |            |                  |       |         |
| Concurrent decrease  | 2,963                   | 1,038      | (101)            | 70    | 3,970   |                         |            |                  |       |         |
| Of which: Banking portfolio  | 2,947                   | 1,027      | (138)            | 68    | 3,904   |                         |            |                  |       |         |
| Steepening <sup>(4)</sup>  | (1,627)                 | (188)      | (338)            | (13)  | (2,166) | (916)                   | (20)       | 69               | (13)  | (880)   |
| Of which: Banking portfolio  | (1,569)                 | (188)      | (325)            | (13)  | (2,095) | (914)                   | (20)       | 63               | (13)  | (884)   |
| Flattening <sup>(5)</sup>  | 847                     | (30)       | 321              | 10    | 1,148   | 566                     | (162)      | 12               | 3     | 419     |
| Of which: Banking portfolio  | 793                     | (29)       | 312              | 10    | 1,086   | 563                     | (160)      | 20               | 3     | 426     |
| Short-term interest increase   | (328)                   | (183)      | 178              | 5     | (328)   | 7                       | (276)      | 179              | (6)   | (96)    |
| Of which: Banking portfolio  | (359)                   | (177)      | 181              | 4     | (351)   | 1                       | (271)      | 186              | (6)   | (90)    |
| Short-term interest decrease   | 286                     | 285        | (182)            | (4)   | 385     | 14                      | 341        | (183)            | 7     | 179     |
| Of which: Banking portfolio  | 317                     | 280        | (186)            | (4)   | 407     | 20                      | 336        | (191)            | 6     | 171     |
| Maximum  | (2,963)                 | (1,038)    | (338)            | (70)  | (3,970) | (1,274)                 | (720)      | (183)            | (13)  | (2,123) |
| Of which: Banking portfolio  | (2,947)                 | (1,027)    | (325)            | (68)  | (3,904) | (1,267)                 | (705)      | (191)            | (13)  | (2,087) |

(1) Net fair value of financial instruments, except for non-monetary items, after effect of liability with respect to employee rights and attribution of non-maturity deposits to terms.

(2) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(3) Interest scenarios as of December 31, 2025 were set in accordance with Proper Conduct of Banking Business Directive No. 333, "Management of Interest Rate Risk".

(4) Short-term interest decrease and long-term interest increase.

(5) 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 arises from timing differences only.

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 thereto with regard to sensitivity of net adjusted fair value to changes in interest rates.

# Risks Report

## As of December 31, 2025

Below is impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues<sup>(1) (4)</sup> (NIS in millions):

|  | As of December 31, 2025 |  |       | As of December 31, 2024 |  |       |
|--|-------------------------|--|-------|-------------------------|--|-------|
|  | Interest revenues       | Non-interest financing revenues <sup>(3)</sup> | Total | Interest revenues       | Non-interest financing revenues <sup>(3)</sup> | Total |
| <b>Concurrent 1% changes<sup>(2)</sup></b>   |                         |  |       |                         |  |       |
| Concurrent 1% increase   | (57)                    | 263  | 206   | (39)                    | 297  | 258   |
| Of which: Banking portfolio  | (64)                    | 284  | 220   | (40)                    | 315  | 275   |
| Concurrent 1% decrease   | (238)                   | (176)  | (414) | (444)                   | (142)  | (586) |
| Of which: Banking portfolio  | (231)                   | (114)  | (345) | (442)                   | (164)  | (606) |
| <b>Additional interest-rate scenarios in accordance with Proper Conduct of Banking Business Directives<sup>(5)</sup></b> |                         |  |       |                         |  |       |
| Concurrent increase  | (360)                   | 565  | 205   |                         |  |       |
| Of which: Banking portfolio  | (378)                   | 598  | 220   |                         |  |       |
| Concurrent decrease  | (568)                   | (286)  | (854) |                         |  |       |
| Of which: Banking portfolio  | (550)                   | (271)  | (821) |                         |  |       |
| Maximum  | (568)                   | 565  | (854) | (444)                   | 297  | (586) |
| Of which: Banking portfolio  | (550)                   | 598  | (821) | (442)                   | 315  | (606) |

(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) An interest increase/decrease scenario features is an assumption of the purchase/sale of bonds as well as the diversion of checking accounts to deposits. The decline in the Bank portfolio's sensitivity to decline in interest rates in this year arises both from operating activities and from revision to the behavioral assumptions regarding rates of diversion from interest-bearing deposits to current accounts.

(5) Interest scenarios as of December 31, 2025 were set in accordance with Proper Conduct of Banking Business Directive No. 333, "Management of Interest Rate Risk".

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.
- When calculating sensitivity of interest revenues and non-interest revenues, the risk-free interest rate is capped in accordance with Proper Conduct of Banking Business Directive 333.
- The interest rate increase/decrease scenario includes an assumption that funds are diverted from current accounts to deposits and/or from short-term deposits to current accounts.

The decline in the Bank portfolio's sensitivity to decline in interest rates in this year arises both from operating activities and from revision to the behavioral assumptions regarding rates of diversion from interest-bearing deposits to current accounts.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements.

## Scope and nature of reporting and measurement systems

Measurement of market and interest risks is supported by information systems, models, processes, risk benchmarks and stress scenarios. The information systems involved in the calculation are regularly reviewed through internal controls processes at the Bank and regular validation processes. A system is in place for control over market risk and interest risk. The system is used to calculate risk benchmarks and to review these vs. risk limits. Calculations are based on a central database of market and position data. The system is also used for calculation of capital allocation with respect to market risks. Risk owners also use other systems, both to calculate the risk benchmarks and as complementary systems for development and maintenance of calculations, ad-hoc analysis and risks management models. The Middle Office uses a custom system to monitor and control trading room activity; this system operates in real time to monitor and locate any unusual activity. This system allows for complete documentation of the activity with high-level analysis capabilities and trends with regard to risk and profitability, as well as a system for call analysis which generates alerts based on business laws.

**Additional information about interest risk**  
**Exposure of the Bank and its subsidiaries to changes in interest rates**  
Reported amounts (NIS in millions)

|   | As of December 31, 2025 |                                |                               |                              |                               |                                |
|---|-------------------------|--------------------------------|-------------------------------|------------------------------|-------------------------------|--------------------------------|
|   | On Call to 1<br>month   | Over 1<br>month to<br>3 months | Over 3<br>months to<br>1 year | Over 1<br>year to 3<br>years | Over 3<br>years to 5<br>years | Over 5<br>years to<br>10 years |
| Financial assets <sup>(1)</sup>   | 257,344                 | 31,599                         | 73,061                        | 94,035                       | 33,654                        | 31,426                         |
| Other amounts receivable <sup>(2)</sup>   | 163,380                 | 168,141                        | 153,719                       | 52,138                       | 34,328                        | 18,359                         |
| Financial liabilities <sup>(1)</sup>  | 232,344                 | 43,251                         | 117,910                       | 48,460                       | 36,852                        | 20,464                         |
| Liabilities with respect to employees' rights   | 16                      | 21                             | 96                            | 225                          | 200                           | 438                            |
| Other amounts payable <sup>(2)</sup>  | 163,709                 | 168,431                        | 154,068                       | 52,046                       | 34,367                        | 18,289                         |
| Exposure to interest rate fluctuations  | 24,655                  | (11,963)                       | (45,294)                      | 45,442                       | (3,437)                       | 10,594                         |
| <b>Additional details on exposure to changes in interest rates</b>                          |                         |                                |                               |                              |                               |                                |
| <b>A. By nature of activity:</b>  |                         |                                |                               |                              |                               |                                |
| Exposure in bank portfolio  | 22,194                  | (12,507)                       | (59,461)                      | 43,240                       | (3,541)                       | 10,277                         |
| Exposure in trading portfolio   | 2,461                   | 544                            | 14,167                        | 2,202                        | 104                           | 317                            |
| <b>B. By linkage basis:</b>   |                         |                                |                               |                              |                               |                                |
| Israeli currency – non-linked   | 30,265                  | (15,853)                       | (51,304)                      | 32,883                       | (1,529)                       | 5,942                          |
| Israeli currency – linked to the CPI  | (9,689)                 | 4,004                          | 15,494                        | 10,795                       | (2,926)                       | 2,903                          |
| Foreign currency <sup>(4)</sup>   | 4,079                   | (114)                          | (9,484)                       | 1,764                        | 1,018                         | 1,749                          |
| <b>C. Effect on exposure to interest rate fluctuations</b>                                  |                         |                                |                               |                              |                               |                                |
| Financial assets <sup>(1)</sup> , before assumptions  | 256,239                 | 29,520                         | 67,092                        | 86,964                       | 29,055                        | 31,363                         |
| Effect of early repayment of residential mortgages <sup>(6)</sup>                           | 1,105                   | 2,079                          | 5,969                         | 7,071                        | 4,599                         | 63                             |
| Financial assets <sup>(1)</sup>   | 257,344                 | 31,599                         | 73,061                        | 94,035                       | 33,654                        | 31,426                         |
| Financial liabilities <sup>(1)</sup> , before assumptions                                   | 271,757                 | 39,584                         | 111,154                       | 39,650                       | 33,259                        | 8,462                          |
| Effect of attribution to terms of non-maturity deposits <sup>(6)</sup>                      | (40,435)                | 1,733                          | 4,866                         | 8,950                        | 7,321                         | 12,611                         |
| Effect of attribution of deposits to terms after the next withdrawal date <sup>(6)(7)</sup> | 1,022                   | 1,934                          | 1,890                         | (140)                        | (3,728)                       | (609)                          |
| Financial liabilities <sup>(1)</sup>  | 232,344                 | 43,251                         | 117,910                       | 48,460                       | 36,852                        | 20,464                         |

**Specific remarks:**

- (1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
- (2) Amounts receivable and payable with respect to compound and off-balance sheet derivative financial instruments.
- (3) Weighted average by fair value of average effective duration.
- (4) Includes Israeli currency linked to foreign currency.
- (5) Difference between effective average duration of financial assets and effective average duration of financial liabilities.
- (6) The effect of the behavioral assumptions on average duration and internal rate of return is calculated by comparing the difference between the average duration and internal rate of return after the effect of the assumptions and the average duration and internal rate of return without those effects.
- (7) The fair value of total deposits after the next withdrawal date, including the effect of early withdrawal assumptions, amounts to NIS 65,836 million.

**General remarks:**

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value consistent with assumptions according to which fair value was calculated for the financial instruments in Note 33 to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 33 to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with Public Reporting Directives. These transactions include, inter alia, loans with exit points, deposits bearing graduated interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience.

# Risks Report

As of December 31, 2025

| As of December 31, 2024         |                  |                     |                     |  |   |                     |  |   |  |
|---------------------------------|------------------|---------------------|---------------------|--|---|---------------------|--|---|--|
| Over<br>10 years<br>to 20 years | Over 20<br>years | Without<br>maturity | Total fair<br>value | Internal rate<br>of return<br><br>In % | Average<br>effective<br>duration <sup>(3)</sup><br><br>in years | Total fair<br>value | Internal rate<br>of return<br><br>In % | Average<br>effective<br>duration <sup>(3)</sup><br><br>in years |  |
| 12,303                          | 1,518            | 17                  | 534,957             | 4.58                                   | 1.41  | 470,019             | 4.57                                   | 1.53  |  |
| 2,994                           | 481              | -                   | 593,540             |  | 0.61  | 579,095             |  | 0.79  |  |
| 893                             | (26)             | 1                   | 500,149             | 2.74                                   | 0.94  | 437,859             | 3.14                                   | 0.97  |  |
| 601                             | 357              | -                   | 1,954               |  | 11.52   | 1,955               |  | 11.64   |  |
| 2,899                           | 466              | -                   | 594,275             |  | 0.80  | 578,692             |  | 0.92  |  |
| 10,904                          | 1,202            | 16                  | 32,119              |  |   | 30,608              |  |   |  |
| 10,850                          | 1,139            | 16                  | 12,207              |  | 0.13  | 20,875              |  | 0.20  |  |
| 54                              | 63               | -                   | 19,912              |  | 1.46  | 9,733               |  | 2.10  |  |
| 6,765                           | 585              | 12                  | 7,766               |  | <sup>(5)</sup> 0.18   | 156                 |  | <sup>(5)</sup> 0.23   |  |
| 3,208                           | 179              | -                   | 23,968              |  | <sup>(5)</sup> 0.87   | 30,022              |  | <sup>(5)</sup> 0.88   |  |
| 931                             | 438              | 4                   | 385                 |  | <sup>(5)</sup> (0.10)   | 430                 |  | <sup>(5)</sup> -  |  |
| 27,395                          | 7,883            | 17                  | 535,528             | 4.55                                   | 2.05  | 470,294             | 4.50                                   | 2.19  |  |
| (15,092)                        | (6,365)          | -                   | (571)               | 0.02                                   | (1.36)  | (275)               | 0.07                                   | (1.34)  |  |
| 12,303                          | 1,518            | 17                  | 534,957             | 4.58                                   | 1.41  | 470,019             | 4.57                                   | 1.53  |  |
| 742                             | (26)             | 1                   | 504,583             | 2.73                                   | 0.98  | 443,150             | 3.14                                   | 1.01  |  |
| 353                             | 0                | 0                   | (4,601)             | 3.03                                   | 1.25  | (5,268)             | 2.74                                   | 1.32  |  |
| (202)                           | 0                | 0                   | 167                 | 0.04                                   | (0.15)  | (23)                | (0.28)                                 | 0.12  |  |
| 893                             | (26)             | 1                   | 500,149             | 2.74                                   | 0.94  | 437,859             | 3.14                                   | 0.97  |  |

## Shares

### Policy on holding shares in the bank portfolio

Bank policy with regard to investment in shares is to realize the current portfolio and individually review any new investments. Shares in which the Bank invested were acquired for the purpose of earning capital gains, and are presented at fair value in the available-for-sale security portfolio and under investment in associated companies, where the Bank has a material investment in such entity.

#### Holdings with expected capital gain and holdings purchased for other purposes

Investments in non-banking corporations are managed by the Finance Division. The steering committee for investments in non-banking corporations convenes quarterly and advises Bank management on investments in non-banking corporations. The steering committee is responsible for management and maintenance of the existing portfolio, trying to improve it so as to allow for rational realization of this portfolio within a reasonable time frame but with no specified schedule, in order to allow for maximum returns.

#### Accounting treatment

About 28% of investments in shares by the Bank are negotiable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management's assessment, a provision for impairment of the investment is recorded as a loss in the Bank's accounts.

For more information about equity investments in the bank portfolio, see chapter "Major investees" on the Report by the Board of Directors and Management and Note 12 to the financial statements.

Below is information about the composition of equity investments in the bank portfolio (NIS in millions):

|   | December 31, 2025 |                                    | December 31, 2024 |                                    |
|---|-------------------|------------------------------------|-------------------|------------------------------------|
|   | Fair value        | Capital requirement <sup>(1)</sup> | Fair value        | Capital requirement <sup>(1)</sup> |
| Shares  | 908               | 105                                | 633               | 75                                 |
| Venture capital / private equity funds              | 779               | 66                                 | 529               | 58                                 |
| <b>Total investment in shares in bank portfolio</b> | <b>1,687</b>      | <b>171</b>                         | <b>1,162</b>      | <b>132</b>                         |

(1) The capital requirement was calculated at 12.50%.

## Liquidity risk

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

Liquidity risk is a unique, material risk due to the need to respond to such risk within the shortest time possible. Materialization of this risk may cause the Bank to incur significant losses, or may even bring about collapse of the Bank. Liquidity risk remained low-medium. In January 2025, in view of the subsidence in fighting in the south, the ceasefire in the north, and the calm in the markets, it was decided to lower the Bank's state of alert regarding liquidity, after it has increased since the outbreak of the war and due to the security situation in Israel.

In June 2025, following Operation Rising Lion, the markets and the various indicators were closely monitored, and it was decided to maintain this state of alert.

A discussion was held in October 2025 following the coming into effect of the ceasefire in the south and it was decided to maintain this state of alert.

The Bank closely monitors the potential changes in the situation. In practice, no events nor indications were observed which would indicate realization of a liquidity event.

## Liquidity risk management – objectives and policies

The objective of liquidity risk management is to identify financing needs and sources of the Bank, to establish procedures for monitoring liquidity and setting minimum requirements for liquidity 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.

Proper Banking Conduct Directive 221 "Liquidity coverage ratio" stipulates minimum liquidity ratios of 100% under stress scenario, for 30 days ("Regulatory LCR") of high-quality liquid assets to liquidity needs over this time period. 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 be 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.

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 a consolidated basis. The reported ratio in the quarterly report is the ratio on a consolidated basis as of December 31, 2025.

These directives are in addition to liquidity risk management using internal models and to qualitative requirements, as stipulated by Directive 342.

Current and periodic management of liquidity risk is conducted on a Group basis, with due attention to legal, regulatory and operating restrictions on the capacity to transfer liquidity and includes monitoring of restrictions set by the Board of Directors and management as well as risk indicators, including with regard to financing source concentration, liquidity exposures at Bank and Group level as well as liquidity gaps resulting from on- and off-balance sheet operations.

The Bank's liquidity management is proactive and strict, including diverse tools for mitigating liquidity risk, both in using detailed models in different world situations, in strict maintenance of liquid means with minimal credit risk which may be immediately realized, and in active management of sources for diversification and extension of the term to maturity and diversification of sources. The Bank has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which discusses the liquidity situation and strives to align the liquidity "needs" of different Bank units with the liquidity "providers" and liquidity managers. In addition, a forum headed by the Finance Division Manager operates at the Bank, for regular monitoring of the implementation of the minimum liquidity coverage ratio directive (Directive 221) and the net stable funding ratio (Directive 222) and compliance with targets for all business units at the Bank for raising and management of resources. The Risks Management Division also conducts regular, independent controls over risk benchmarks, risk development and event debriefs, as needed.

The Liquidity Department is responsible for intra-day management of liquidity in Israeli and foreign currency. Daily liquidity management is conducted while maintaining a minimal reserve, as determined from time to time, in order to make unexpected payments. Balances are managed in conformity with the Bank of Israel directives (liquid assets), which require the Bank to maintain liquid assets against deposits in Israeli and foreign currency, at rates as specified in the directive. Any failure to comply with these directives would be reported to Bank management and to the Board of Directors soon after its occurrence.

If unusual changes in balances are observed during the day, in Israeli or foreign currency, an evaluation is conducted in terms of compliance with limits of the liquidity risk management model, and a decision is made as to whether proactive steps should be taken in response. Such steps may include conducting proactive transactions, contacting major customers etc.

As noted above, restrictions have been specified by the Board of Directors and by management for liquidity ratios under various scenarios, including for terms other than one month and in the normal course of business.

The Bank's emergency financing plans refer to management of each emergency and specify the management team responsible for handling it (by level). These plans include detailed specification of additional liquid means for use in emergency as well as a list of operative steps (and the entity authorized to launch them), also referring to management of communications, both internal and external.

## Business model

The policy on liquidity risk management is an integral part of strategic business management at the Bank and the Group and is aligned with Proper Conduct of Banking Business Directives 310 (Risk management), 342 (Liquidity risk management) and 221 (liquidity coverage ratio) and 222 (Net stable funding ratio).

As noted above, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratios, so that the target liquidity coverage ratio and the net stable funding ratio for the Bank and the Group would be 5% higher than the minimum required. Bank management has specified additional safety cushions as guidelines, so as to avoid deviation from the Board of Directors' targets. It is Bank policy to maintain a liquidity coverage ratio and a net stable funding ratio including an appropriate safety margin relative to the Board of Directors' limits, along with efficient management of excess liquidity, in order to achieve maximum return for the Bank.

## Approach to liquidity risk policy and setting limitations

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.

## Organizational structure for liquidity risk management

The Liquidity Risk Owner at the Bank is the Manager, Finance Division.

Liquidity risk management is conducted in conjunction with the general risks management framework at the Bank. This framework includes the following:

- First line – risk managers at the Finance Division
- Second line – risk controllers at the Risks Management Division
- Third line – Internal Audit.

All Bank units have some impact on liquidity risk. The policy document stipulates the requirement for co-ordination between these units, in order to create a uniform methodology to be used by the Bank for regular management of liquidity risk, compliance with daily requirements of financing needs, and preparation for potential emergencies, including adoption of immediate actions to properly address such emergencies.

## Reports to management and to the Board of Directors

The Bank's Board of Directors and management receive various reports on a daily, weekly, monthly and quarterly basis, including reporting of compliance with limits specified by the Board of Directors and management, states of alert, cost of sources, data with regard to changes in balance sheet balances for deposits and credit, and any other information which the liquidity risk owner deems relevant for the report, including unusual events in liquidity management and unusual developments in the Bank's liquid sources. In 2025 there were no recorded deviations from the Board of Directors' restrictions.

## Measurement tools and benchmarks

The Bank measures and monitors risk, primarily using the following models:

- Standard model – This model estimates the liquidity coverage ratio (LCR), which is the ratio of liquidity cushion to forecasted net outgoing cash flow. The forecasted net outgoing cash flow is defined as the difference between payments (cash outflows, with respect to liabilities) and receipts (cash inflows, with respect to assets) for a one-month term. This ratio is calculated under standard (uniform) coefficients specified by the Supervisor of Banks in Proper Conduct of Banking Business Directive 221 (Liquidity coverage ratio) and based on directives of the Basel III Committee.
- The dynamic liquidity coverage ratio (DLCR) is a key supporting tool for risk management and monitoring. For calculation of the DLCR, the daily LCR is calculated for 90 days ahead under multiple assumptions. The DLCR is calculated for the overall ratio and for the ratio in foreign currency, and is reported in the daily liquidity report.
- Internal model (minimum liquidity ratio – in conformity with Directive 342) – This model estimates the ratio of liquidity cushion to forecasted net outgoing cash flow, as required by Directive 342 and in conformity with Basel directives. In this model, stress scenarios were defined in Israeli and foreign currency, for different time horizons, based on behavioral attributes of depositors and on risk focal points, in line with the various scenarios.

- Standard model – This model estimates the Net Stable Funding Ratio (NSFR) – the ratio of stable funding sources (Available Amount of Stable Funding) – existing sources which are highly likely to be available to the banking corporation within 1 year or longer to total long-term uses (Required Amount of Stable Funding) – existing uses which the banking corporation is likely to be required to fund within 1 year or longer). This ratio is calculated under standard (uniform) coefficients specified by the Supervisor of Banks in Proper Conduct of Banking Business Directive 222 (Net stable funding ratio), based on directives of the Basel III Committee.
- Dynamic Net Stable Funding Ratio (DNSFR) is a tool used to assist in risk management and monitoring. DNSFR includes calculation of the ratio over a one-year horizon forward, subject to multiple assumptions. DNSFR is calculated for the overall consolidated ratio, and is reported as part of the daily liquidity report.
- Contractual liquidity differences – Review of balance sheet differences between inflows and outflows, with no behavioral assumptions and with no coefficients applied. Contractual liquidity differences between the future cash flows of assets and liabilities constitute one of the key components of liquidity risk management. As a general rule, due to the nature of banking activities, the Bank is exposed to liquidity and financing risks arising mainly from short-term liabilities (such as deposits from the public and wholesale financing) against long-term assets (such as loans to the public), as detailed in Note 32 to the financial statements - Cash flows in accordance with contractual repayment date. However, in the ordinary course of business, the deposits' renewal rates, mainly in the case of core deposits, are very high.

The Bank also 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.

The Bank's Board of Directors and management receive various reports at daily, weekly, monthly and quarterly frequency – including reports of unusual events in liquidity management and unusual developments in the Bank's liquid sources. In 2025 there were no recorded deviations from the Board of Directors' restrictions.

The Bank reviews liquidity ratios both in the normal course of business and under certain scenarios. In the normal course of business, the Bank assumes no difficulty in conversion transactions between currencies. Furthermore, excess liquidity available for investment for a period of one year ahead is calculated, with no assumptions on raising new funds.

The scenarios used to review the liquidity ratios consist of three main scenarios (specific, system-wide and combined) and three additional scenarios (short specific, overseas system-wide and long combined), as set forth below:

- Main stress scenarios:
  - Specific – specific operational event / material lowered rating (by at least three notches) – scenario of embezzlement and/or disruption of Bank operations, including a prolonged disruption to its IT Systems. This scenario is the Bank's most conservative internal stress scenario. The key behavioral assumptions used by the Bank in this scenario are - increased withdrawal of deposits by households and by wholesale customers. In this scenario, the difference in cash flow between the liquid assets and net projected outflows is the lowest among the internal stress scenarios; however, since the Bank maintains a high liquid assets balance, the cash flow difference still represents a high positive amount.
  - System-wide – scenario involving a market emergency due to war, unusual defense events or financial events, which disrupt the normal day-to-day life in Israel, including the local capital markets.
  - Combined – system-wide event with expected implication for the Bank that is more severe than its expected implication to other banks, such as a crisis in the real estate market.
- Other stress scenarios:
  - Short specific – scenario describing a very high pressure due to lowered rating of the Bank; in this scenario, the impact is short but more significant than in the main stress scenarios.
  - Overseas specific – scenario involving shock which impacts overseas affiliates of the Bank / of Israeli banks and also has a low-level impact on operations in Israel.
  - Long combined – scenario reflecting a prolonged event. In this scenario, the stress level is lower than in main stress scenarios, but its impact is longer lasting, hence this scenario would impact a wider customer audience.

## Scope and nature of reporting and measurement systems

Liquidity risk management system, used to calculate the overall liquidity, in Israeli currency and in foreign currency separately (including details in major currencies), including information about assets, liabilities and off-balance sheet liabilities of the Bank, compliance with limits specified by the Board of Directors and management, alerts with regard to trends in development of liquidity, the overall liability structure and in particular, liabilities to major depositors. The model results are displayed on a custom portal. The system is based on a daily database containing customer mapping, updated daily, from the Bank's data warehouse, and activity data obtained from the mainframe computer. The system includes controls to ensure data integrity and reliability. This information system is also used for reporting to the Bank of Israel, as stipulated by reporting directives 827 and 889 of the Supervisor of Banks and by the Public Reporting Directives.

## Liquidity coverage ratio (LIQ1)

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

|  | <b>Three months ended December 31, 2025</b>                   |   |
|--|---|---|
|  | <b>Total<br/>unweighted<br/>value<sup>(2)</sup> (Average)</b> | <b>Total<br/>weighted<br/>value<sup>(3)</sup> (Average)</b> |
| <b>Total high quality liquid assets</b>  |   |   |
| <b>Total high quality liquid assets (HQLA)</b>   |   | <b>95,546</b>   |
| <b>Outgoing cash flows</b>   |   |   |
| Retail deposits from individuals and from small businesses, of which:  | 183,544   | 10,984  |
| Stable deposits  | 44,076  | 2,204   |
| Less stable deposits   | 58,599  | 6,355   |
| Deposits for term longer than 30 days  | 80,869  | 2,426   |
| Non-secured wholesale financing, of which:   | 97,946  | 68,074  |
| Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations | 3,931   | 983   |
| Deposits other than for operational needs (all counter parties)  | 93,633  | 66,710  |
| Non-secured debts  | 381   | 381   |
| Secured wholesale financing  | -   | 118   |
| Other liquidity requirements, of which:  | 202,394   | 79,294  |
| Outgoing cash flows with respect to exposure to derivatives and other collateral requirements                    | 69,704  | 69,704  |
| Credit lines and liquidity   | 81,701  | 7,820   |
| Other contractual financing obligations  | -   | -   |
| Other contingent financing obligations   | 50,988  | 1,769   |
| <b>Total outgoing cash flows</b>   | <b>483,884</b>  | <b>158,470</b>  |
| <b>Incoming cash flows</b>   |   |   |
| Secured loans  | 6,801   | 130   |
| Incoming cash flows from exposures repaid regularly  | 23,235  | 16,611  |
| Other incoming cash flows  | 70,899  | 67,724  |
| <b>Total incoming cash flows</b>   | <b>100,935</b>  | <b>84,465</b>   |
|  |   | Total adjusted value <sup>(4)</sup>                         |
| <b>Total high quality liquid assets (HQLA)</b>   |   | <b>95,546</b>   |
| <b>Total outgoing cash flows, net</b>  |   | <b>74,005</b>   |
| <b>Liquidity coverage ratio (%)</b>  |   | <b>129</b>  |

- (1) Information presented in terms of simple average of daily observations during the reported quarter. The number of observations used in calculating the averages in the fourth quarter of 2025 is 75.
- (2) Un-weighted values are calculated as un-settled balances to be repaid or repayable by the holder within 30 days (for incoming and outgoing cash flows).
- (3) Weighted values are calculated after applying appropriate safety factors or rates of incoming and outgoing cash flows (for incoming and outgoing cash flows).
- (4) Adjusted values are calculated after applying: Safety factors and rates of incoming and outgoing cash flows, as well as other relevant limitations (i.e. limitation on high quality liquid assets and limitation on incoming cash flows, as set forth in Proper Conduct of Banking Business Directive 221).

# Risks Report

## As of December 31, 2025

Below is information about liquidity coverage ratio<sup>(1)</sup> (NIS in millions):

|  | Three months ended December 31, 2024                  |   |
|--|---|---|
|  | Total<br>unweighted<br>value <sup>(2)</sup> (Average) | Total<br>weighted<br>value <sup>(3)</sup> (Average) |
| <b>Total high quality liquid assets</b>  |   |   |
| <b>Total high quality liquid assets (HQLA)</b>   |   | <b>90,905</b>                                       |
| <b>Outgoing cash flows</b>   |   |   |
| Retail deposits from individuals and from small businesses, of which:  | 184,185   | 11,353  |
| Stable deposits  | 45,084  | 2,254   |
| Less stable deposits   | 62,500  | 6,801   |
| Deposits for term longer than 30 days  | 76,600  | 2,298   |
| Non-secured wholesale financing, of which:   | 90,900  | 59,549  |
| Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations | 3,060   | 765   |
| Deposits other than for operational needs (all counter parties)  | 87,113  | 58,058  |
| Non-secured debts  | 727   | 727   |
| Secured wholesale financing  | -   | 258   |
| Other liquidity requirements, of which:  | 192,522   | 76,877  |
| Outgoing cash flows with respect to exposure to derivatives and other collateral requirements                    | 67,890  | 67,890  |
| Credit lines and liquidity   | 75,457  | 7,239   |
| Other contingent financing obligations   | 49,175  | 1,748   |
| <b>Total outgoing cash flows</b>   | <b>467,606</b>  | <b>148,038</b>                                      |
| <b>Incoming cash flows</b>   |   |   |
| Secured loans  | 4,615   | 267   |
| Incoming cash flows from exposures repaid regularly  | 20,596  | 14,432  |
| Other incoming cash flows  | 68,654  | 66,026  |
| <b>Total incoming cash flows</b>   | <b>93,865</b>   | <b>80,725</b>                                       |
|  |   | Total adjusted value <sup>(4)</sup>                 |
| <b>Total high quality liquid assets (HQLA)</b>   |   | <b>90,905</b>                                       |
| <b>Total outgoing cash flows, net</b>  |   | <b>67,313</b>                                       |
| <b>Liquidity coverage ratio (%)</b>  |   | <b>135</b>  |

(1) Information presented in terms of simple average of daily observations during the reported quarter. The number of observations used in calculating the averages in the fourth quarter of 2024 is 74.

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

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

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

## Key factors that impact results of the liquidity coverage ratio

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

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

## Composition of high quality liquid assets (HQLA)

Below is information about liquid assets by level, as required under Proper Conduct of Banking Business Directive 221 (NIS in millions):

|                   | December 31    |               | Average for the fourth quarter |               |
|-------------------|----------------|---------------|--------------------------------|---------------|
|                   | 2025           | 2024          | 2025                           | 2024          |
| Level 1 assets    | 109,326        | 90,113        | 95,446                         | 90,828        |
| Level 2a assets   | 68             | 52            | 65                             | 46            |
| Level 2b assets   | 36             | 27            | 35                             | 31            |
| <b>Total HQLA</b> | <b>109,430</b> | <b>90,192</b> | <b>95,546</b>                  | <b>90,905</b> |

## Developments in liquidity coverage ratio

In the fourth quarter of 2025, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (consolidated) for the fourth quarter of 2025 was 129%.

## Net stable funding ratio (LIQ2)

On June 21, 2021, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 222 regarding "Net stable funding ratio (NSFR)", which stipulates calculation of the ratio as specified in the Basel III Reform of the Basel Committee (BCBS). The Directive became effective on December 31, 2021.

In conformity with this directive, the objective of the net stable funding ratio is to improve stability of the liquidity risk profile of banking corporations over the long term, by requiring banking corporations to maintain a stable funding profile in conformity with the composition of on-balance sheet assets and off-balance sheet operations. The ratio limits over-reliance by banking corporations on short-term wholesale funding. The net stable funding ratio consists of two components: available stable funding items and required stable funding items.

As required in the directive, the net stable funding ratio should be 100% or higher on regular basis.

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

# Risks Report

## As of December 31, 2025

Below is information about the net stable funding ratio<sup>(1)</sup> (NIS in millions) as of December 31, 2025:

|  | A  | B                                    | E                        | D                   | S              |
|--|--|--------------------------------------|--------------------------|---------------------|----------------|
|  | Non-weighted value by term to maturity         |                                      |                          |                     | Weighted value |
|  | No redemption date <sup>(1)</sup> maturity (1) | Up to 6 months 6 Months Up to 1 year | 6-12 months Up to 1 year | 12 months or longer |                |
| <b>Available stable funding items (ASF)</b>  |  |                                      |                          |                     |                |
| <b>Capital:</b>  | 37,883   | 41                                   | 5                        | 7,025               | 44,910         |
| Supervisory capital  | 37,883   |                                      |                          | 1,908               | 39,791         |
| Other capital instruments  |  | 41                                   | 5                        | 5,117               | 5,120          |
| <b>Retail deposits from individuals and from small businesses</b>  |  | 143,281                              | 21,525                   | 4,518               | 155,410        |
| Stable deposits  |  | 48,354                               | 2,957                    | 1,027               | 49,773         |
| Less stable deposits   |  | 94,928                               | 18,568                   | 3,491               | 105,637        |
| <b>Wholesale financing</b>   |  | 208,273                              | 54,712                   | 51,357              | 117,307        |
| Deposits for operational needs   |  | 4,352                                |                          |                     | 2,176          |
| Other wholesale financing  |  | 203,920                              | 54,712                   | 51,357              | 115,131        |
| <b>Liabilities with matching assets which are inter-dependent</b>  |  |                                      |                          |                     |                |
| <b>Other liabilities:</b>  | 304  | 1,725                                | 2,294                    | 12,287              | 13,434         |
| Liabilities with respect to derivative instruments for net stable funding ratio  |  |                                      | 7,028                    |                     |                |
| All other liabilities and capital not included in the above categories   | 304  | 1,725                                | 2,294                    | 12,287              | 13,434         |
| <b>Total available stable funding items (ASF)</b>  |  |                                      |                          |                     | 331,061        |
| <b>Required stable funding items (RSF)</b>   |  |                                      |                          |                     |                |
| <b>Total high-quality liquid assets by net stable funding ratio (HQLA)</b>   |  |                                      |                          |                     | 1,927          |
| <b>Deposits held at other financial institutions for operational purposes</b>  |  |                                      |                          |                     |                |
| <b>Loans and securities in good standing:</b>  |  | 69,520                               | 39,116                   | 281,598             | 276,630        |
| Loans to financial institutions in good standing, secured by level 1 high-quality liquid assets  |  |                                      |                          |                     |                |
| Loans to financial institutions in good standing, secured by high-quality liquid assets other than in level 1, and loans to financial institutions in good standing which are not secured                              |  | 9,559                                | 9,745                    | 10,063              | 16,369         |
| Loans to wholesale customers, other than financial institutions, which are in good standing, loans to retail customers and to small businesses and loans to sovereigns, to central banks and to public sector entities |  | 46,378                               | 17,691                   | 49,572              | 73,559         |
| Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203  |  | 0                                    | 0                        | 2                   | 2              |
| Residential mortgages secured by mortgage in good standing, of which:  |  | 13,582                               | 11,671                   | 221,608             | 186,394        |
| Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203  |  | 4,470                                | 3,853                    | 72,991              | 51,606         |
| Securities not in default which do not qualify as high-quality liquid assets, including shares traded on the stock exchange  |  | 1                                    | 9                        | 355                 | 307            |
| <b>Assets with corresponding liabilities which are inter-dependent</b>   |  |                                      |                          |                     |                |
| <b>Other assets:</b>   | 4,067  | 2,053                                | 2,290                    | 1,141               | 11,284         |
| Physically traded commodities, including gold  |  |                                      |                          |                     |                |
| Assets deposited as primary collateral for derivative contracts and provided to default funds of central counter parties (CCPs)  |  |                                      | 1,734                    |                     | 1,734          |
| Assets with respect to derivative instruments for net stable funding ratio   |  |                                      | 6,293                    |                     |                |
| Liabilities with respect to derivative instruments for net stable funding ratio, before deduction of variable collateral deposited   |  |                                      |                          |                     |                |
| All other asset categories not included in the above categories  | 4,067  | 2,053                                | 2,290                    | 1,141               | 9,551          |
| <b>Off-balance sheet items</b>   |  |                                      | 151,144                  |                     | 6,786          |
| <b>Total required stable funding (RSF)</b>   |  |                                      |                          |                     | 296,626        |
| <b>Net stable funding ratio (%)</b>  |  |                                      |                          |                     | 112%           |

(1) Items reported under "No maturity" are items with no specified maturity.

## Key factors that impact results of the net stable funding ratio

Net stable funding ratio on a consolidated basis as of December 31, 2025 was 112% compared to 113% at the end of 2024.

The 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.

## Pledged assets (ENC)

Proper Conduct of Banking Business Directive 336 concerning "Pledging assets of a banking corporation" stipulates a guiding principle to balance the need of running a business and the need of protecting rights of depositors in case of insolvency. The directive stipulates that a banking corporation may only pledge assets if required by law, regulation or relevant market requirements.

In conformity with Public Reporting Directives, pledged assets are assets which the Bank is limited in or precluded from liquidating, selling, transferring or assigning them due to legal, regulatory, contractual or other restrictions, and which are not included under "Assets used as collateral for a central bank".

Un-pledged assets are assets that do not meet the definition of pledge assets and are not included under "Assets used as collateral for a central bank".

Assets used as collateral for a central bank (central bank facilities) are assets used as collateral for transactions, or which may be used as collateral for transactions in any central bank facility, including those used for monetary policy, liquidity support or any other financing needs.

In conformity with Bank policy on pledging assets, the Bank's strategic business activity, which includes extensive financial activity, as well as flexible, efficient management of Bank liquidity, requires pledging some Bank assets in the course of such activity. Thus, for example, the Bank allows customers to trade on diverse markets (securities in Israel and overseas, interest and foreign currency derivatives) and offers an extensive range of products and services. This activity is also carried out through third parties and vis-à-vis clearinghouses, and sometimes requires assets to be pledged.

Below is the composition of pledged and un-pledged available assets (NIS in millions):

|                                      | <b>As of December 31, 2025</b>            |                          |                              |
|--------------------------------------|---|--------------------------|------------------------------|
|                                      | <b>Total balance on<br/>balance sheet</b> | <b>Of which: Pledged</b> | <b>Of which: Non-pledged</b> |
| Cash and deposits with central banks | 81,146                                    | 4,339                    | 76,807                       |
| Bonds of the Government of Israel    | 34,891                                    | 344                      | 34,547                       |
| Bonds of others in Israel            | 2,432                                     | -                        | 2,432                        |
| Bonds of overseas governments        | 9,139                                     | 925                      | 8,214                        |
| Bonds of others overseas             | 235                                       | -                        | 235                          |
| Loans to the public, net             | 400,331                                   | -                        | 400,331                      |
| <b>Total</b>                         | <b>528,174</b>                            | <b>5,608</b>             | <b>522,566</b>               |
|                                      | <b>As of December 31, 2024</b>            |                          |                              |
|                                      | <b>Total balance on<br/>balance sheet</b> | <b>Of which: Pledged</b> | <b>Of which: Non-pledged</b> |
| Cash and deposits with central banks | 81,143                                    | 1,894                    | 79,249                       |
| Bonds of the Government of Israel    | 23,245                                    | 598                      | 22,647                       |
| Bonds of others in Israel            | 2,055                                     | -                        | 2,055                        |
| Bonds of overseas governments        | 1,961                                     | 389                      | 1,572                        |
| Bonds of others overseas             | 332                                       | -                        | 332                          |
| Loans to the public, net             | 357,981                                   | -                        | 357,981                      |
| <b>Total</b>                         | <b>466,717</b>                            | <b>2,882</b>             | <b>463,835</b>               |

## Additional information about liquidity risk and financing risk

### **Financing risk**

Financing risk arises from shortage of financing sources or too high costs to raise sources. This 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.

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 2025, the Bank continued diversifying its financing sources and reducing concentration risk.

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.

#### **Concentration of financing sources**

The Bank has specified the major risk concentrations for handling source concentration / structure. Handling of risk concentrations is focused on different levels, regularly conducted by means of Board and management limits as well as risk indicators.

The Board of Directors and management limits and the various key risk indicators with regard to financing source concentration are monitored across a wide range of 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. During 2025 there were no material changes in the "comprehensive index" and it remained at a medium level.

The Board of Directors and management limits were specified as part of the Bank's overall risk appetite.

For more information about financing sources, see chapter "Developments in financing sources" in the Report by the Board of Directors and Management.

## Operational Risk

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. 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.

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.

## Operational risk management – objectives and policies

The framework policy on operational risk management 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 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: Directive 350 "Operational risks management" and Directive 310 "Risk management", which outline the overall risk management framework, and prescribe the rules for proper management of operational risk.

The Bank framework for handling operating risk is reviewed quarterly, as part of the Bank's Risks Document. The risk profile is presented in this context, i.e. the actual loss level, in view of the risk appetite, the operational risk map and the most material events which occurred during the quarter.

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 2025, as part of the approval process of all policy documents for risk management and control.

This risk is regularly monitored by review of various operational failure events.

The Bank acts to dynamically measure and identify operational risk on two levels: Measuring loss and identifying risks based on failure events that actually materialized, and in reference to materialized and potential risks in the operational risk survey process. 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 risk surveys for all Bank operations. 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 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 capital, Security Unit and the Technology Division.

## Business model

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.

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, as follows:

- Operating events may occur in all areas of activity and in all Bank units.
- Operating risk may potentially impact earnings, revenues, capital and reputation of the Bank.
- Operational risk is correlated with other risks, including: market risk, credit risk, liquidity risk, reputation risk and other risks. Thus, for example, materialization of an operational risk event may cause reputation risk to materialize, after which the Bank may face a liquidity event.
- Some operating failures have very low probability of materialization, but relatively large damage potential.
- Operating risk has diverse instances, from human error, malfunction in technological systems, fraud, embezzlement, war, fire, robbery etc.
- Operating events sometimes occur which are not under control of the financial institution, 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), plague and security event.

In recent years, the volume of fraud targeting customers of the financial system in Israel has been on the rise. However, it should be emphasized that the scope of these incidents is immaterial, and generally there were no material operating failure incidents during 2025.

## Approach to operational risk policy and setting limits

The basic principles of the strategic plan, which determine the Bank's overall risk appetite, expose the Bank to significant operational risks. Such risk requires active, forward-looking action to manage and to minimize the potential impact.

As noted, the Bank acts to measure and identify the operational risk inherent in all of its products, activities, processes and material systems, in a dynamic fashion, across two dimensions:

- Measuring actual materialization of failure events.
- Risks assessment for damage potential with respect to failure events.

The activity on these two levels is a constant process designed to increase the effectiveness of risks management and mitigation, while learning, reassessing risks, including to due materialized events.

The Bank reviews the capital held against operational risk under Pillar 1, calculated using the standard approach, vs. advanced Basel methodologies, in order to assess whether an additional capital allocation is required under Pillar 2, in the normal course of business. The Bank also applies a range of operational stress events, mapped in the Bank's operational risk map as events causing material damage to the Bank. Such potential losses are added to the internal capital allocation under Pillar 2, as part of the ICAAP process.

## Organizational structure for operational risk management

The Bank has put in place an organizational structure and corporate governance for management of operational risks, which includes the Board of Directors, management and the three lines of defense. This structure is supported by dedicated committees and forums, created for management of operational risk.

The framework for handling operating risk is based on three lines of defense:

**First line of defense:** Includes all business and operational units at the Bank which are responsible for management of operational risk, and in particular, the Technology Division, which is the first line for management of cyber and information security risk, business continuity and IT, as well as Mizrahi Tefahot Security Services, which forms the first line for security and safety management.

**Second line of defense:** The Risks Management Division through the Risks Management Department, acting to implement the required activity for management and handling of operational risk across all Bank units, from a general viewpoint and in conformity with policy principles, is responsible for constant monitoring of operational risk vs. the risk appetite and for handling risk in view of activities of the first line, using a range of processes, tools and methods. The unit is also responsible for the risk assessment process, jointly with the business units, and for conducting surveys and for revision of the operational risks map, management of the central IT system used by the Bank with regard to operational risk, used to collect failure events, conduct operational surveys and to monitor the recommendations for implementation arising from surveys, failure events and lessons learned.

Other units in the second line of defense which address and mitigate the operational risks are, among other things:

- The Training Department, of the Human Capital and Resources Division, which acts to reinforce professional knowledge and to reduce operating failures arising from lack of knowledge and awareness.
- The Cyber and Information Security Department of the Risks Management Division, headed by the Bank's Information Security Officer. This Department works in tandem with cyber defense at the Technology Division, along with all Bank units.
- The Banking Operations Division is responsible for overall business continuity management, i.e. the Bank's preparedness for business continuity in case of an emergency.
- The Human Capital and Resources Division, responsible for handling continuous rotation and paid leave to minimize operational risk (and in particular the fraud risk).
- The Bank Security Department, operating in the Human Capital and Resources Division, supports handling of operational risk at various Bank units.
- The SOX Unit, of the Financial Information and Reporting Division, is responsible for effectiveness of controls and procedures concerning disclosure and effectiveness of internal controls over financial reporting at the Bank.
- The Legal Division, responsible for implementation of the framework for handling legal risk.

**Third line of defense:** Internal Audit acts independently to conduct audits of operational risk management in order to ascertain the effectiveness of handling such risk, in accordance with the multi-annual work plan. The operational risk policy specifies the role of Internal Audit as the entity in charge of carrying out periodic audits of risk management processes, debriefing of fraud and embezzlement events, participation as observer on steering committees.

On June 19, 2024, the Bank Supervisor published a circular that updates Proper Bank Management Directive 206, on calculating operating risk in accordance with the terms of the Basel Agreement from December 2017. The Directive comes into effect on January 1, 2026. The Bank has completed its preparations for the application of the Directive. The revision is expected to result in a certain decrease in the Bank's risk-weighted assets.

#### **Below are key risk concentrations for operational risks:**

##### **Model risk**

Model risk may arise from making decisions or taking actions based on an erroneous model outcome or from an incorrect use of model outcomes. The materialization of the risk might lead to financial losses, incorrect strategic results or damage to the Bank's reputation.

The model risk is assessed as low-medium; it is based on the model risk map maintained by the Bank. It is noted that most of the Bank's models are decision support models, and that the risk is closely managed by the Bank under an orderly corporate governance framework and work processes. On August 21, 2024, the Supervisor of Banks issued Proper Conduct of Banking Business Directive No. 369 regarding model risk management, which regulates the key aspects of an effective management of model risks. The directive came into effect in August 2025 with transitional provisions regarding the existing models. The Bank is applying the directive in accordance with the prescribed timelines.

##### **Business continuity**

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity" and in the fourth quarter of 2025, completed implementation of the 2025 work plan and exercise plan.

During the course of the year, the Bank continued to implement the business continuity plans and maintained high alert levels in view of the sustained Special Homefront Situation. The Bank maintained its "orange" alert level due to concerns for damage to Bank's sites and large-scale absence of employees, which might impair the Bank's services. The Bank has put into action its emergency management and reporting framework, including frequent convening of an extended situations room and a financial exchange rate forum at times of emergency.

The Bank maintains high levels of preparedness in its emergency sites and continuously monitors their adequate functioning. 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 extensive remote-working capabilities for essential employees and relevant work processes.

During the year, the Bank continued to implement the work plan and its annual and multi-year exercise programs, including: Completion of revisions to essential services at times of emergency (business impact analysis), rollout of a training and implementation program in branches, exercises involving emergency procedures and processes, updating emergency files and checklists, etc.

As to Group-level control, the Bank continued to maintain continuous contact with business continuity units of the Group and its overseas branches, and monitored the implementation of the guidance and the preparedness to the war 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 concept 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 function is headed by the Chief Information Security Officer, reporting directly to the head of the Risk Management Division – responsible, among other things, 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, including debriefing and lesson-learning processes. The Bank has several management-level dedicated 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.

Over the course of the fourth quarter of 2025, the assessment of information security and cyber risk levels remained unchanged at medium-high, after a rise in the second quarter of the year due to the war with Iran. In view of the attack on Iranian cyberspace, and in particular the damage to the Iranian banking system, a global increase in threat factors has been identified, and primarily, an increase in Iran's motivation to potentially conduct cyberattacks on the Israeli banking-financial system, and a potential increase in Iran's attempts to reap cyberspace achievements.

The Bank continues to enhance and improve its defensive measures implemented in its systems, in line with evolving and increasing threats and challenging requirements with which it is required to comply.

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.

The relationships and information flow between these units have been specified in procedures, including reference to: Information security, physical security, IT governance, IT operations, risks management, fraud, human resource management, business continuity, customer relationship management, spokesperson operations and legal counsel.

Information security and cyber defense policies at the Bank are implemented, inter alia, by the Mizrahi Tefahot Technology Division Ltd. As part of this effort, the management concept applied includes guidelines for management of cyber security. Application of these guidelines and ensuring that they are current while incorporating them into strategic decisions and business and operational activity at the Bank – will ensure the consistency and integrity of the cyber security management concept over time.

The information security and cyber security policy is based on the following principles:

- Mapping and identifying cyber risks.
- Establishing an effective set of controls with cross-organizational integration of technology, human resources, processes and procedures.
- Specifying mechanisms to protect customer and business activities in the online domain, in conformity with Proper Banking Conduct Directive 367.
- Proactive cyber security implemented through mapping and knowledge of the environment, forecasting and study of threats, weighting of the current situation report, development of responsiveness processes, use of techniques for deception, diversion and delay, stability and recovery capacity, conducting processes of investigation, debriefing and execution of judgment.
- Implementation of multi-layer security in several circles and disciplines (both logical and physical), from the external system accessible to customers and through to internal systems, information and intelligence sharing.
- Using a system for monitoring, control and response for management of cyber events with integrated, corporate-wide view of components such as human resources, means of communications and procedures.
- Periodic and current reporting of risks management as a whole.
- Current analysis and assessment of cyber threats and exercising all those involved in handling cyber events.
- Development of stress scenarios related to information security and cyber.
- Improvement and enhanced controls among Bank suppliers, so as to reduce risk in the supply chain.

In addition, the Bank's E-Banking sector is certified under the information security management standard ISO 27001.

E-banking processes at the Bank include implementation of information security processes in conformity with Proper Conduct of Banking Business Directive 367, including authentication mechanisms, transmission of information to customers and identification of exceptional transactions.

## 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, business continuity, information leakage, technology, compliance, legal, reputational and so forth. These risks are regularly managed through risk management processes, procurement processes (backed by supporting IT systems), business continuity and information and cyber security; the processes are carried out in accordance with a policy for management of suppliers and outsourcing risk, which was formulated and approved by the Bank and is validated every year, in accordance with Proper Conduct of Banking Business Directive 359A - 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 2025, the Bank continued to bolster these capabilities.

On November 18, 2024, the Supervisor of Banks published Proper Conduct of Banking Business Directive 364 regarding management of IT, information security and cyber security risks. The Directive will come into effect in May 2026 and the Bank is making preparations for its implementation. The Directive changes the existing regulatory framework for management of technological risks to the ever-changing technological environment and threats and to the regulation generally accepted across the world. This Directive replaces the three previous directives: Proper Conduct of Banking Business Directive 357 - Information Technology Management, Proper Conduct of Banking Business Directive 361 - Cyber Defense Management, and Proper Conduct of Banking Business Directive 363 - Supply Chain Cyber Risk Management.

The risk level remained medium.

## Legal risk

Proper Conduct of Banking Business Directive 350 concerning "Operational risks" defines legal risk as including absence of potential for legal enforcement of an agreement and "including, but not being 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.

The Bank's Legal Division applies internal processes to ensure regular monitoring of developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank Group. In this context, the Legal Division provides guidance to relevant Bank entities with regard to implementation of the implications arising from these developments. The Legal Division provides regular counsel to different Bank units, including to some subsidiaries. This is done, *inter alia*, by providing opinions, editing and updating legal documents, support for updates to procedures etc.

The Bank has specified procedures to help in minimizing legal risk, including regulating the interface between the Legal Division and different Bank departments. The Legal Division is also involved in training delivered to branches and headquarters units, at the Bank's Training Center and in compiling professional eLearning kits for imparting the legal knowledge required for regular Bank operations.

Similar reference is made for Bank affiliates overseas, with these affiliates receiving assistance from local external attorneys approved by the Bank's Legal Division. The Bank's subsidiaries and overseas affiliates have adopted similar procedures with regard to management of legal risk, and provide immediate and quarterly reports to the Legal Risk Manager of the Bank with regard to any legal risks identified in these entities.

In 2025, there were no unusual events which may impact the Bank's exposure and Legal risk remained low-medium.

## Scope and key features of risks measurement system

In general, it is Bank policy to manage and to monitor risks using controlled, computer-based systems with minimal dependence on manual processes and with near-real time update frequency.

The Bank has many measurement systems used to estimate all material risks to which the Bank is exposed, as well as IT systems to support risks monitoring and reporting; set forth below are the key systems:

- A custom system for operational risks management (PSTL – Operational Risk Portal), used by the Bank to collect, monitor and analyze failure events, risk surveys and to generate a risk maps, linking any actual materialized events to the risk map, regular monitoring of recommendations for implementation arising from surveys, failure events, lessons learned and reports with regard to operational risk.
- System for monitoring embezzlement risk – The system provides alerts concerning suspect activity, based on definition of business rules.
- System for monitoring fraud risk – a set of rules for monitoring fraud risk, which generates alerts concerning suspicious activity, based on business rules defined in the system.
- Information security center (SOC) system – systems that continuously monitor the Bank's computer environments, including all components thereof, to identify suspect events that require individual scrutiny.
- Permission management and control system – a computer system for management and control of permissions and credentials in various systems. The system applies computer-based processes for management of employee permissions in the various systems, based on their role and the employee life cycle. The system allows for application of time-based controls with regard to changes made to employee permissions in these systems.

## Reports to management and to the Board of Directors

Bank policy specifies the channels for management and reporting of operational risk, designed to ensure proper risk management for all products, activities, processes and material systems of the Bank. To this end, the Bank operates forums at all levels, tasked with handling operational risk; the following are the key forums:

- Management committee for operational risks – this committee serves as management's key managerial tool for management and monitoring of operational risks at the Bank. The Committee is part of the management committee for risks management.
- Operating Risk Steering Committee – serves as an advisory committee to the Chief Risks Officer with regard to operating risk management. The committee comprises relevant representatives from business and control units and an observer from the audit unit.
- Operational risks monitoring forums – Dedicated forums headed by the Chief Risks Officer, with each of the relevant Bank divisions. These forums are intended to discuss internal control aspects, in particular aspects arising from the operating risk management framework, including results of risk assessment surveys, material events and results of debriefs.

For management of this risk at Bank units, operational risk trustees were appointed, most of whom operate in the first line of defense, are responsible for handling operational risk and IT risk at their unit.

## Operating risk mitigation

Due to the significance of operating risk, the Bank takes different steps to mitigate this risk. The most important step is to instill a corporate culture which promotes strong awareness of operating risk, and of deployment of risk-mitigating processes. The operational risk trustees, across the Bank, are the long arm of the Operational Risk Owner in this process. The Bank distributes relevant papers and holds dedicated training sessions for those trustees.

In addition, the Bank implements steps to increase awareness of the operational risk, mainly from a fraud perspective, including to customers.

Changes to existing business processes and/or new processes with potential for materialization of operational risk undergo a structured process of approval by business entities and by control entities, prior to launch, using a checklist – and are sent for approval by the Steering Committee. This mechanism is used to review all aspects of the change, ensuring a professional review of the root risk and how to mitigate it.

One of the tools used by the Bank for risk mitigation is debriefing and lesson learning following internal and/or external events. The conclusions formed in this process are incorporated into work processes, systems, training content and procedures.

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 are incorporated into the action plan.

**Mitigating operational risk through insurance** – the Bank is insured under a banking insurance policy 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.

## Capital allocation

Through December 31, 2025, the Bank allocated capital with respect to operational risk using the standard approach. According to this approach, Bank revenues were categorized 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 operational risk. Segmentation and treatment of the required capital allocation is incorporated in a specific policies document which governs the aspects required for capital allocation using the standard approach and, in particular, specifies the lines of business in Bank operations. Risk weightings range from 12% for retail banking to 18% for corporate financing. Bank operations are mostly in the retail segment, so that most of the operational risk assets are with respect to this line of business; the Bank's overall average risk weighting is 12.8%.

For further details regarding the revision to the provisions of Proper Conduct of Banking Business Directive 206 regarding the calculation of capital requirements in respect of operational risk as from January 1, 2026, see the chapter Organizational structure for operational risk management above.

## Other risks

### Compliance and regulatory risk

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

The Bank is acting in conformity with Proper Conduct of Banking Business Directive 308, which includes the obligations for compliance risk management to all compliance directives, including laws, rules and regulations (including positions stated by the Supervisor of Banks in conjunction with handling public inquiries), internal procedures and the Code of Ethics which apply to banking operations at the Bank.

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 includes, among other things, conduct and fairness aspects, privacy protection laws, AML and terror financing and cross-border risk, as detailed below.

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.

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.

Compliance and regulation risk is managed by three lines of defense:

**First line of defense** – Includes the business units, in charge of identification, assessment, mitigation and control of compliance risk in processes and systems for which they are responsible.

**Second line of defense** – The Manager, Risks Management Division and CRO of the Bank serves as the person in charge of enforcement of securities laws and economic competition laws at the Bank and a Chief Compliance Officer, who report to the Chief Risks Officer. Their role is to assist the Bank's Board of Directors and Bank management in effectively managing compliance risk. The Compliance Department is responsible, among other things, for deployment of an organizational culture of compliance with procedures and with the law and fair dealing with customers across all Bank departments, for identification of various risks pertaining to regulation, conduct and fairness aspects, privacy protection and others through the implementation of risk-based controls over the relevant departments and through analysis of findings provided by other departments.

**Third line of defense** – Internal Audit, which conducts independent audit of the first line of defense and of the Compliance Function, including review of the appropriateness and effectiveness of the Compliance Function, and review of compliance aspects in branch operations and in processes audited thereby.

The Bank maintains effective enforcement programs for securities law and for economic competition law, adapted for the Bank and its unique circumstances, as part of overall risks management at the Bank. This is designed to ensure compliance with securities law and economic competition law and to avoid violation thereof.

The Compliance Department maps compliance risks in various areas, takes action in order to reduce them and carries out training to deploy the compliance policy across the Bank. In order to ensure compliance with all statutory provisions, as noted above, the Compliance Officer maintains a control system including comprehensive control based on risk-based management.

The compliance risk is assessed using a methodology which reflects the likelihood of materialization of a breach event, the expected damage in case of breach, while taking into account the existing risk mitigators, such as: quality of work processes and procedures, compliance culture, control quality and so forth. The Bank manages and monitors quarterly changes in quantitative / qualitative benchmarks relevant for compliance risks management.

Computer-based tools are used in implementing compliance programs. Computer-based controls, including rules for monitoring activity, exception reports etc. are applied to Bank databases and are regularly developed in line with the work plan.

In 2025, the Bank's compliance and regulatory risk level remained unchanged at low-medium.

The Bank applies the current and new regulatory provisions. The Bank continues to closely monitor and mitigate all aspects of the risks: Compliance risk includes conduct and privacy-protection compliance, AML and terror financing risk. The Bank operates in accordance with a specific policy regarding the management of cross-border risks and the implementation of international sanctions, based on the international banking framework for the implementation of cross-border enforcement rules.

## Cross-border risk

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.

The Bank has 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.

The cross-border Risk Manager for the Bank is the Manager, Risks Management Division, the CRO. The Compliance Officer is responsible for continuous management of this risk.

Cross-border risk is managed by three lines of defense:

**First line of defense** – Includes the Retail Division, the Corporate Division and the Finance Division, which are responsible for monitoring and reducing cross-border risk in their activity with relevant customers, international operations, which is responsible for overseas Bank affiliates through local compliance units at each affiliate.

**Second line of defense** – the Compliance Department under the Risks Management Division, which is responsible for deploying an organization-wide compliance culture with procedures and laws, for identification and assessment of cross-border risk, for delivering appropriate training and for specifying procedures. To this end, the Compliance Department is assisted by the Legal Division, the Human Capital and Resources Division which supports the implementation of processes and IT systems and the Technology Division, which develops computer-based tools for risk identification, monitoring and mitigation.

**Third line of defense** – Internal Audit, which conducts periodic audit of the management of cross-border risk.

The level of cross-border risk remained unchanged in 2025, at Low-Medium.

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, and reported to the IRS during 2024.

The Bank implements 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.

International entities, including OFAC (of the US Department of Treasury) and the European Union have imposed international sanctions on countries, organizations and individuals. As part of management of its international financial operations and maintaining proper business relations with correspondent banks, the Bank is compliant with these sanctions, even though they do not apply directly to the Bank. As part of management of cross-border risk, the Bank especially monitors and reviews any monetary transactions where any party to such transaction is located in a country / entity subject to international sanctions, which the Bank decided to adopt.

## AML risk

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. 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 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 states and international bodies such as OFAC (of the US Department of Treasury) and of the European Union.

The Bank applies a risk-based approach to account opening and management, allocating resources in conformity with the risk level of the account and activity, reflected *inter alia* by enhanced controls and appropriate custom training.

The Bank has 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 AML Risk Owner for the Bank is the head of the Risk Management Division - the CRO. The Compliance Officer is responsible for continuous management of AML risk.

The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and overseas affiliates.

AML risk is managed by three lines of defense:

**First line of defense** – consists of branches and business units that apply real time regular controls to their operations.

**Second line of defense** – the Compliance Department of the Risks Management Division, which is responsible for applying appropriate controls, for deployment of relevant statutory provisions and for delivering training designed to improve knowledge on this subject.

**Third line of defense** – Internal Audit, which conducts independent audit of the first line of defense and of the Compliance Function, including review of the appropriateness and effectiveness of the Compliance Function, including review of controls in line with estimated risk level.

The Bank applies statutory provisions and regularly provides ordinary and extraordinary reports to the AML Authority. To this end, the Bank operates *inter alia* a computer system to identify extraordinary transactions and to monitor the processing of such reports.

The Compliance Department manages and monitors quarterly changes in relevant qualitative and quantitative benchmarks relevant for compliance risk management, and applies various controls to activity in various accounts, based on the risk profile thereof, concurrently with verification and improvement of data quality. The Department also provides ongoing advice to branches and business units, as well as delivering training customized for different Bank employees based on their role.

In addition, as part of bribery and corruption risk management, the Bank acts to identify customers that may be exposed to giving, receiving or brokering bribes, both during account opening and in the course of normal business operations.

The Compliance Department provides a semi-annual report to the Bank of Israel about exposure to compliance risk, in conformity with Reporting Regulation 825. In addition, the department reports to Bank management every quarter and submits annual reports to the Board of Directors with regard to implementation of the policy and reference to all risks and exposures at the Bank with regard to compliance. Furthermore, in special cases with implications for AML, the Compliance Officer immediately reports to the CRO, to the Bank President & CEO and to the Supervisor of Banks, as the case may be.

In view of the increase in business activity and further increased regulatory activity reflected, *inter alia*, in frequent publication of new directives, for which the Bank is preparing accordingly, intensive training and deployment activity continued, along with risk-focused controls, improvement of documents and classifications, and taking effective action to avoid recurrence of unusual events and compliance failures.

## Terror financing risk

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.

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.

The Terror Financing Risk Owner for the Bank is the head of the Risk Management Division - the CRO. The Compliance Officer is responsible for continuous management of terror financing risk.

The Bank regards itself as a partner in the international anti-terror financing, acting to monitor and follow up on customer activities. 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.

International entities, including OFAC (of the US Department of Treasury) and the European Union have imposed international sanctions on countries, organizations and individuals. As part of management of its international financial operations and maintaining proper business relations with correspondent banks, the Bank is compliant with these sanctions, even though they do not apply directly to the Bank. As part of management of the risk, the Bank monitors and applies special reviews to any monetary transactions where any party to such transaction is a state, body or entity subject to international sanctions.

Terror financing risk is managed by three lines of defense:

**First line of defense** – consists of branches and business units that apply real time regular controls to their operations.

**Second line of defense** – the Compliance Department of the Risks Management Division, which is responsible for applying appropriate controls, for deployment of relevant statutory provisions and for delivering training designed to improve knowledge on this subject.

**Third line of defense** – Internal Audit, which conducts independent audit of the first line of defense and of the Compliance Function, including review of the appropriateness and effectiveness of the Compliance Function, including review of controls in line with estimated risk level.

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.

Against the backdrop of the Iron Swords War, the Bank increased monitoring and handling of this matter, while bolstering controls over transactions and customers at risk.

## Scope and key features of risks measurement system

The Bank has many measurement systems used to estimate all material risks to which the Bank is exposed, as well as IT systems to support risks monitoring and reporting, as stated below:

- Compliance risk management system – this system is used for risk management, control management, task monitoring and for management and monitoring of decisions and processes. The system allows for dynamic specification, execution and monitoring of processes and displays a current overview of work processes for each stage, in real time, as well as the Bank's compliance risks map.
- The AML system (MEA) is used to monitor unusual activity which gives rise to concern with regard to AML and terror financing. This system addresses the monitoring of transactions, review, debrief, transfer to the Compliance Department and, if needed, completing the processes by referring the case to the AML Authority. Reports generated by the system are in conformity with the AML Authority's new reporting directives (pattern-based reporting). This system has been deployed at all Bank branches, and operates with a regular computer interface between Bank branches and the Compliance Department.
- A system which scans for names of entities/persons designated as terror organizations/terrorists and for sanctions in lists of designated entities/persons compiled by the State of Israel (the Ministry of Defense and the Ministry of Finance) and international entities.

## Reputational risk

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 operating risk 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.

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. Therefore, similarly to other risks, the Bank's Board of Directors has created a dedicated policy document for addressing reputation risk, which specifies guidelines for risk management, risk appetite, risk measurement and ways to mitigate risk. Accordingly, the Bank incorporated reputation risk into its regular risks management processes, including the process for approval of new products or activities and in self-assessment processes conducted by the Bank and has put in place a framework for regular measurement of this risk. The Bank emphasizes creation of a reporting chain and the required activity under stress conditions, in order to mitigate the impact of such risk, should it materialize. This activity requires identification of risk materialization at its early stages, in order to allow for qualitative and quantitative tools to be applied as early as possible, in order to address this risk. The policy refers to all Bank subsidiaries and stipulates mandatory reporting and the required actions in case of an event classified as a reputation event. The Bank regularly coordinates with Bank Yahav on this matter.

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.

Bank policy also defines the roles of the Risk manager and stipulates how the risk should be addressed under normal conditions and in case of a stress event. The Risk Manager heads the Reputation Risk Committee, which regularly convenes quarterly and as needed, in case of concern about materialization of a stress event. The Committee routinely discusses the outcome of continuous monitoring of this risk which is conducted, among other things, based on internal and external information sources, through surveys and studies, monitoring online discourse, media review and reports by other Risk Managers at the Bank. The work process under stress conditions, i.e. in case of an event which may impact reputation, is incorporated in a specific reporting and action procedure. The objective of this procedure is to define how information is located, the reporting chain, including declaration of a reputation event, how to act during the event and how to declare the event ended, including debriefing and other assessment to review the impact of the event on Bank image, once the event has ended. The Bank has also specified, as part of its business continuity plan, the creation of a media command post, headed by the Risk Manager, which would allow the Bank to handle reputation risk in case of emergency.

The Bank routinely measures its reputation risk in the capital market, in the public and among customers and the business community. This measurement is based on specific quarterly studies which review public opinion (Bank customers and those of other banks), on monthly monitoring of online discourse, on satisfaction surveys among Bank customers etc. Reports with regard to reputational risk are sent to Bank management and to the Board of Directors in the quarterly Risks Document – as is the case for all risks mapped by the Bank.

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 has maintained a leading image in the service, fairness and perception as a different bank axes. Among Bank customers, the high image reception levels remain. Satisfaction from the service experience offered by the Bank remains high and stable and managed systematically using a variety of tools.

In February 2026, the Bank of Israel published the results of its 2025 customer satisfaction survey among private households. The survey shows that Mizrahi Tefahot maintains its leading position in several key categories: Recommending the Bank to others (six consecutive year); this indicates general satisfaction and engagement with the brand; fairness (fifth consecutive year); this reflects the customer's trust towards the Bank; and the category of resolution of customer issues - a new parameter measured this year, in which the Bank significantly outperforms the other banks and which reflects the effectiveness of providing customer service. The Bank is also leading the categories of satisfaction with waiting times at the branch and satisfaction with the call center.

## Strategic business risk

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. 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 June 4, 2025 the Bank's Board of Directors approved a new three-year strategic plan for 2025-2027 (hereinafter - the "Plan Period"), which is based on the following objectives:

- Establishing the Bank Group's position as a leading bank among households by making efforts in the following areas: Maintaining the Bank's leadership in the mortgage market while introducing product and process innovation and leveraging the Bank's prominent position in this market to increase synergies with commercial operations; expanding operations among target populations, including through credit products and dedicated deposits.
- Positioning the Bank as a key player in business banking by leading large and complex transactions; leading transactions for the financing of national infrastructure projects, expanding the Bank's existing business activity and its activity in other business sectors in Israel.
- Providing personal banking services by human representatives, who are supported by advanced digital technology, based on a multi-channel approach that maintains continuous service availability while optimally combining various digital channels and personal banking services provided by humans in accordance with the customer's choices and needs.
- Timely adaptation of the operation model to the challenges of the future and maintaining operational efficiency (the ratio between operating expenses and total revenues) by making efforts in the following areas: Relocating and concentrating the Bank's HQ on a central campus in Lod; optimizing the deployment of the branches and the utilization of real estate assets used by the branches; further automation of operational processes and removing responsibility thereto from the branches.

For details regarding the Bank's strategic plan, see chapter "Business goals and strategy" of the Report of the Board of Directors and Management as of December 31, 2025.

For further details regarding the strategic plan and the assumptions, facts and data the plan relies upon, which may not materialize or materialize in a different manner and therefore cause the new strategic plan not to materialize or materialize in a different manner ("Forward-looking information protection"), see immediate report of June 5, 2025 (Ref. No.: 2025-01-040290).

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.

As noted above, developments in the business environment which may impact strategic risk include increased local and global geo-political tension, its impact on local and global economic activity, effect of inflation and higher interest rates, which raised the cost of borrowing, technological developments in the world of finance and changes to consumer preferences, the impact of regulatory provisions in core areas of banking operations.

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 not solely controlled by the Bank.

## Environment, society and governance (ESG) risks

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.

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.

As from the financial statements with respect to the fourth quarter of 2020, the Bank includes environmental risk, and in particular climate risk, on the list of emerging risks. At this stage it is too early to assess the potential long-term impact of climate change on the Bank.

In 2026, the Bank intends to further develop its capabilities with regard to ESG risks and in particular climate risks, with due notice to developments in global and local banking regulation and developments in the economic and environmental arena in Israel and elsewhere.

On June 17, 2024, the Bank Supervisor published an update to Proper Bank Management Directive 345 concerning guidelines for the effective management of climate-related financial risks. In accordance with the circular, it was decided to defer the start date of the directive. The directive will come into effect starting June 12, 2026 (in lieu of the original date, June 12, 2025).

For objectives and strategies with regard to environment and climate, see "Environmental risks" on the Report by the Board of Directors and Management.

## Remuneration

In December 2023, 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 2024-2026 as from January 1, 2024. The remuneration policy is in conformity with the Corporate Law, 1999, 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 Proper Conduct of Banking Business Directive 301A "Remuneration".

In December 2023, the Bank's Board of Directors approved, after receiving the recommendation from the Remuneration Committee, a remuneration policy for 3 years for all Bank employees, other than officers who are subject to the remuneration policy for Bank officers, as noted above. 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 2024-2026.

### **Name, composition and authority of entity supervising remuneration**

The Board of Directors' Remuneration Committee is the entity which supervises remuneration. The Committee consists of 4 Board members. All Board members serving on the Committee are external Board members, and all external Board members are members of the Remuneration Committee (in conformity with the Companies Law and with Proper Conduct of Banking Business Directive 301 "Board of Directors").

The Remuneration Committee formulates recommendations for the Board of Directors on remuneration policy for officers and other Bank employees. Moreover, the Remuneration Committee confirms the contracting terms of the Bank with its senior officers, including with regard to their remuneration (including officer liability insurance, indemnification and waiver), as well as the individual targets to be specified by the Bank President & CEO and their assessments on this matter (and of the Chairman of the Board of Directors and recommendation of the Audit Committee with regard to the Internal Auditor, respectively).

### **External consulting with regard to remuneration processes**

For approval of the remuneration policy, the Remuneration Committee was assisted by various advisors: legal advice and advice on corporate governance aspects.

### **Remuneration policy scope**

In conformity with the officer remuneration policy, the Remuneration Committee and the Board of Directors approved an officer remuneration plan.

Based on the remuneration principles specified by the Remuneration Committee and adopted by the Board of Directors, as reflected in the officer remuneration policy – the Remuneration Committee recommended and the Board of Directors approved in December 2023 a remuneration policy for all Bank employees other than officers ("the remuneration policy for all Bank employees").

The remuneration policy for all Bank employees applies Group-wide; it also applies to overseas affiliates of the Bank, to Bank subsidiaries other than Bank Yahav – whose remuneration policy has been communicated to the Bank.

### **Employees considered senior officers and other key employees**

The officer remuneration policy distinguishes between business officers and gatekeepers, for whom an "additional fixed component" was specified, inter alia – which is not contingent on performance – and individual performance benchmarks were specified – which are independent of the business which they supervise.

The remuneration policy for all Bank employees specifies remuneration terms of all key employees at the Bank, those of senior managers and other managers at the Bank and of other Bank employees for 2024-2026.

The group of key Bank employees, other than officers, consists in 2025 of 49 managers, of which 17 managers in subsidiaries (other than Bank Yahav).

**Planning and structure of remuneration policy; key attributes and objectives of remuneration policy**

The objective of the officer remuneration policy and of the remuneration policy for all Bank employees, is to ensure that remuneration of Bank employees, including key employees, would be consistent with the Bank's risks management framework, with its long-term objectives, with the Bank's strategic plan and its control environment, as well as with actual employee performance over the short, medium and long terms. Accordingly, the goals underlying the remuneration policy were: create an incentive structure for Bank employees which maintains a proper balance between fixed and variable remuneration components and which promotes effective, well established risk management which does not encourage risk taking beyond the Bank's risk appetite and allows the Bank to maintain a solid capital base; align remuneration incentives payable to Bank employees with the Bank's strategic plan, with long-term objectives of the Bank, with the Bank's results over time and with actual contribution of Bank employees to achieving such Bank objectives; alignment of Bank contracting with Bank employees other than officers, in order to create balanced conditions which do not jeopardize the robustness and stability of the Bank, as well as preserving senior Bank employees and ensuring, in as much as possible, the Bank's capacity to recruit high-quality managers in future, allowing for organization-wide considerations such as cost of remuneration and desired remuneration gaps between various ranks of Bank employees, as well as the competitiveness in the banking sector, the Bank's size, scope of operations and nature of its business.

Remuneration components of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as any other benefit, payment or commitment to make a payment, provided with respect to their employment at the Bank.

The great majority of Bank executives, including key employees, are employed by individual employment contract. As for officers, their terms of office and employment include waiver and indemnification and officer liability insurance, as customary at the Bank.

Remuneration of employees involved with risk and compliance is not dependent on the business results of the business areas whose operations they monitor, audit or supervise. Terms of office and employment of the Chief Compliance Officer are brought for approval by the Board of Directors, after approval by the Remuneration Committee, as stipulated by Proper Conduct of Banking Business Directive 301A. Furthermore, variable remuneration of managers in charge of the trading room, back office staff and staff involved in risk management, is not dependent on operating results of the trading room and is not derived from remuneration of trading room staff.

**Risks**

Annual remuneration processes and Key Performance Indicators (KPI) of senior managers at the Bank, which are challenged by the Bank's Chief Risks Officer, include reference to issues related to risk management, with emphasis on compliance risk and mitigation measures for such risk within the manager's scope of activity.

**Link between performance and remuneration; long-term performance; variable remuneration**

Variable remuneration for key employees and other managers includes a monetary bonus and long-term equity-based remuneration. Variable remuneration is designed to align the interests of managers and key employees with those of the Bank and to reinforce the link between the Bank's overall performance and the key employee's contribution to achievement of such performance, and the key employee's remuneration – with consideration to the Bank's risk profile.

Variable remuneration is objective-dependent and performance-dependent and as such, encourages the senior executives, including the key employees, to generate economic value and to promote the Bank's medium-term and long-term objectives, while maintaining the Bank's risks management framework and risk appetite. Therefore, performance-based remuneration payable to key employees is contingent on Bank performance in the medium and long terms, considering the Bank's strategic plan – but would not encourage taking risks beyond the Bank's risk appetite and would maintain a proper balance between fixed and variable remuneration components.

Equity-based remuneration is typically awarded by way of options, as described in the outline of offering to employees, as approved by the Board of Directors on May 29, 2024, after approval by the Remuneration Committee. As well as a capped monetary bonus, such that the total value of variable remuneration would not exceed 100% of the key employee's total 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 bonus equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy.

Key employees' eligibility for variable remuneration is contingent on fulfillment of all threshold conditions specified in the officer remuneration policy, in line with the officer remuneration policy, i.e.: on the Bank's total capital adequacy ratio and Tier I equity adequacy ratio, in conformity with the Bank's annual financial statements for that year, would not be lower than the minimum ratios stipulated by Bank of Israel directives and under special circumstances, should the rate of return be lower than the minimum stipulated or to be stipulated in Bank of Israel directives, but the second pre-requisite has been fulfilled, a special bonus of up to two monthly salaries may be awarded.

## Risks Report

As of December 31, 2025

Eligibility of key employees and other senior executives to a monetary bonus is based on quantitative, company-wide criteria identical to those applicable for officers: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of core deposits. In addition, eligibility of senior managers, including key employees for a monetary bonus is based on qualitative criteria, consisting of individual performance benchmarks (specified annually, based on performance targets according to the work plan for each year) and which include objectives related to risks management and compliance and objectives with regard to risks handled thereby, depending on their occupation, as well as evaluation by their supervisors. In addition, a threshold was specified for the evaluation criteria, below which the key employee would not be eligible for any annual monetary bonus. The individual performance benchmarks specified for managers, related to risk control and compliance, are related to development and implementation of risks monitoring mechanisms and to development and implementation of effective alerts to deviation from the definitions specified by Bank management and Board of Directors, as well as supervision and control of implementation of required statutory provisions, as the case may be. Individual performance benchmarks specified for managers involved in audits are related to the scope and quality of audits performed under their supervision with reference to coverage of major risk factors in their field, implementation of a clear professional policy in support of Bank objectives and deployment of high professional standards. These performance benchmarks are not contingent on performance of Bank business lines and units which they supervise or audit, as the case may be.

Eligibility of key employees for options, for each annual lot, would be determined based on the four company-wide benchmarks, as described above (with respect to officers other than the Bank President & CEO or the Chairman of the Board of Directors). In conformity with the officer remuneration policy, eligibility of officers to receive options would be determined based on company-wide benchmarks, with a weighting of up to 40% for gatekeepers, and up to 55% for other officers, as well as on individual performance targets, with a weighting of up to 60% for gatekeepers and up to 45% for other officers.

The Bank has specified steps ("minimum achievement", "target achievement", "maximum achievement"), the achievement of which would confer eligibility to receive variable remuneration at different rates.

In conformity with the remuneration policy, a key employee must reimburse, including by way of offset, any variable remuneration paid them – if paid based on data which turned out to be erroneous and were restated on the Bank's (consolidated) financial statements within three years following the end of the year for which the variable remuneration was paid, but no later than three years after termination of their employment by the Bank.

Furthermore, the remuneration policy stipulates – and option offerees have committed accordingly – that no private hedging arrangements may be entered into which would eliminate the effect of risk-sensitivity inherent in their remuneration.

For officers not employed by individual employment contract and for all other Bank employees – the monetary bonus consists of a general bonus and individual bonus, based on their department and with due consideration to objectives for revenues, risk management, compliance, compliance with regulatory requirements and internal audit findings, public complaints, service quality to customers, individual contribution of the employee and the supervisor's opinion.

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.

# Risks Report

As of December 31, 2025

Below are details of remuneration paid (NIS in millions):

|                              |   | 2025            |                     |
|------------------------------|---|-----------------|---------------------|
|                              |   | Senior Officers | Other key employees |
| <b>Fixed remuneration</b>    | Employee headcount                                | 16              | 49                  |
|                              | Total fixed remuneration                          | 33              | 53                  |
|                              | Of which: Cash-based                              | 33              | 53                  |
|                              | Of which: Deferred                                | -               | -                   |
|                              | Of which: Shares or other share-based instruments | -               | -                   |
|                              | Of which: Other forms                             | -               | -                   |
|                              | Of which: Deferred                                | -               | -                   |
| <b>Variable remuneration</b> | Employee headcount                                | 15              | 49                  |
|                              | Total variable remuneration                       | 18              | 30                  |
|                              | Of which: Cash-based                              | 9               | 19                  |
|                              | Of which: Deferred                                | -               | 5                   |
|                              | Of which: Shares or other share-based instruments | 9               | 11                  |
|                              | Of which: Deferred                                | 9               | 11                  |
|                              | Of which: Other forms                             | -               | -                   |
| Of which: Deferred           | -   | -               |                     |
| <b>Total remuneration</b>    |   | <b>51</b>       | <b>83</b>           |

|                              |   | 2024            |                     |
|------------------------------|---|-----------------|---------------------|
|                              |   | Senior Officers | Other key employees |
| <b>Fixed remuneration</b>    | Employee headcount                                | 16              | 50                  |
|                              | Total fixed remuneration                          | 31              | 51                  |
|                              | Of which: Cash-based                              | 31              | 51                  |
|                              | Of which: Deferred                                | -               | -                   |
|                              | Of which: Shares or other share-based instruments | -               | -                   |
|                              | Of which: Other forms                             | -               | -                   |
|                              | Of which: Deferred                                | -               | -                   |
| <b>Variable remuneration</b> | Employee headcount                                | 16              | 50                  |
|                              | Total variable remuneration                       | 18              | 27                  |
|                              | Of which: Cash-based                              | 9               | 17                  |
|                              | Of which: Deferred                                | -               | 4                   |
|                              | Of which: Shares or other share-based instruments | 9               | 10                  |
|                              | Of which: Deferred                                | 9               | 10                  |
|                              | Of which: Other forms                             | -               | -                   |
| Of which: Deferred           | -   | -               |                     |
| <b>Total remuneration</b>    |   | <b>49</b>       | <b>78</b>           |

# Risks Report

As of December 31, 2025

Below is information about special payments (NIS in millions):

| Special payments    | Guaranteed bonuses  |                    | Signing bonuses     |                    | Severance pay       |                    |
|---------------------|---------------------|--------------------|---------------------|--------------------|---------------------|--------------------|
|                     | Number of employees | Total remuneration | Number of employees | Total remuneration | Number of employees | Total remuneration |
| <b>2025</b>         |                     |                    |                     |                    |                     |                    |
| Senior Officers     | -                   | -                  | -                   | -                  | -                   | -                  |
| Other key employees | -                   | -                  | -                   | -                  | -                   | -                  |
| <b>2024</b>         |                     |                    |                     |                    |                     |                    |
| Senior Officers     | -                   | -                  | -                   | -                  | -                   | -                  |
| Other key employees | -                   | -                  | -                   | -                  | -                   | -                  |

Below is information about deferred remuneration (NIS in millions):

| Deferred remuneration and retained remuneration | Total unpaid amount of deferred remuneration balance | Of which: Total outstanding remuneration payable that is held and subject to retroactive adjustments, explicit or implicit | Total amount of revision made during the year due to explicit retroactive adjustments | Total amount of revision made during the year due to implicit retroactive adjustments | Total deferred remuneration paid out in the reported year |
|---|--|--|---|---|---|
|   |  | 2025   |   |   |   |
| <b>Senior Officers</b>                          |  |  |   |   |   |
| Cash  | -  | -  | -   | -   | -   |
| Share-based                                     | 25   | 25   | -   | -   | 8   |
| Cash-based instruments                          | -  | -  | -   | -   | -   |
| Other   | -  | -  | -   | -   | -   |
| <b>Other key employees</b>                      |  |  |   |   |   |
| Cash  | 10   | 10   | -   | -   | 2   |
| Share-based                                     | 28   | 28   | -   | -   | 13  |
| Cash-based instruments                          | -  | -  | -   | -   | -   |
| Other   | -  | -  | -   | -   | -   |
| <b>Total</b>                                    | <b>63</b>  | <b>63</b>  | -   | -   | <b>23</b>   |
| <b>2024</b>                                     |  |  |   |   |   |
| <b>Senior Officers</b>                          |  |  |   |   |   |
| Cash  | -  | -  | -   | -   | -   |
| Share-based                                     | 24   | 24   | -   | 24  | 24  |
| Cash-based instruments                          | -  | -  | -   | -   | -   |
| Other   | -  | -  | -   | -   | -   |
| <b>Other key employees</b>                      |  |  |   |   |   |
| Cash  | 9  | 9  | -   | 9   | 9   |
| Share-based                                     | 31   | 31   | -   | 31  | 31  |
| Cash-based instruments                          | -  | -  | -   | -   | -   |
| Other   | 1  | 1  | -   | 1   | 1   |
| <b>Total</b>                                    | <b>65</b>  | <b>65</b>  | -   | <b>65</b>   | <b>65</b>   |



# Risks Report

## As of December 31, 2025

Differences between accounting consolidation basis and supervisory consolidation basis, and mapping of financial statements by supervisory risk categories (NIS in millions):

Link between the balance sheet and supervisory capital components (NIS in millions):

|  | <b>Consolidated supervisory<br/>balance sheet</b> |                |
|--|---|----------------|
|  | <b>As of December 31</b>                          |                |
|  | <b>2025</b>                                       | <b>2024</b>    |
|  | <b>NIS in millions</b>                            |                |
| <b>Assets</b>  |   |                |
| Cash and deposits with banks   | 82,849  | 82,644         |
| Securities   | 47,903  | 28,491         |
| Of which: Investments in equity of financial corporations, not exceeding 10% of share capital of each financial corporation                                    | -   | -              |
| Of which: Investments in equity of financial corporations, exceeding 10% of share capital of each financial corporation, not exceeding the deduction threshold | -   | -              |
| Of which: Other securities   | 47,903  | 28,491         |
| Securities borrowed or purchased in resale agreements  | 593   | 264            |
| Loans to the public  | 404,355   | 362,094        |
| Provision for credit losses  | (3,854)   | (4,113)        |
| Of which: Group provision for credit losses included in Tier II  | (3,402)   | (3,331)        |
| Of which: Provision for credit losses not included in regulatory capital   | (452)   | (127)          |
| Loans to the public, net   | 400,501   | 357,981        |
| Loans to Governments   | 347   | 318            |
| Investments in associated companies  | 481   | 263            |
| Of which: Investments in equity of financial corporations, exceeding 10% of share capital of each financial corporation, not exceeding the deduction threshold | 4   | 3              |
| Of which: Investments in other associated companies  | 477   | 260            |
| Buildings and equipment  | 2,159   | 1,852          |
| Intangible assets and goodwill   | 87  | 117            |
| Of which: Goodwill   | 87  | 87             |
| Of which: Other intangible assets  | -   | 30             |
| Assets with respect to derivatives   | 6,293   | 5,526          |
| Other assets   | 9,960   | 8,187          |
| Of which: Deferred tax assets  | 2,223   | 2,311          |
| Of which: Deferred tax assets, other than those arising from temporary differences   | -   | -              |
| Of which: Deferred tax liability with respect to intangible assets   | -   | -              |
| Of which: Other deferred tax assets  | 2,223   | 2,311          |
| Of which: Excess deposit over provision  | -   | -              |
| Of which: Other additional assets  | 7,737   | 5,876          |
| <b>Total assets</b>  | <b>551,173</b>                                    | <b>485,643</b> |

# Risks Report

## As of December 31, 2025

Link between the balance sheet and supervisory capital components (NIS in millions) – Continued:

|   | <b>Consolidated supervisory<br/>balance sheet</b> |                |
|---|---|----------------|
|   | <b>As of December 31</b>                          |                |
|   | <b>2025</b>                                       | <b>2024</b>    |
|   | <b>NIS in millions</b>                            |                |
| <b>Liabilities and Equity</b>   |   |                |
| Deposits from the public  | 448,397   | 393,383        |
| Deposits from banks   | 2,058   | 2,599          |
| Deposits from the Government  | 197   | 49             |
| Securities loaned or sold in re-purchase agreements   | -   | -              |
| Bonds and subordinated notes  | 40,365  | 36,916         |
| Of which: Subordinated notes not recognized as regulatory capital                                       | (389)   | 94             |
| Of which: Subordinated notes recognized as regulatory capital   | 6,051   | 5,568          |
| Of which: Qualifying as supervisory capital components  | 6,051   | 5,568          |
| Of which: Not qualifying as regulatory capital components and subject to transitional provisions        | -   | -              |
| Liabilities with respect to derivatives   | 7,028   | 5,123          |
| Of which: With respect to internal credit risk  | 8   | 11             |
| Other liabilities   | 16,700  | 14,844         |
| Of which: Deferred tax liability arising from retirement  | -   | -              |
| <b>Total liabilities</b>  | <b>514,745</b>                                    | <b>452,914</b> |
| Equity attributable to shareholders of the banking corporation  | 34,765  | 31,292         |
| Of which: Supervisory capital   | 34,765  | 31,292         |
| Of which: Ordinary share capital  | 3,655   | 3,572          |
| Of which: Surpluses   | 30,906  | 27,782         |
| Of which: Cumulative other comprehensive loss   | 75  | (215)          |
| Of which: Losses with respect to adjustments with respect to employee benefits                          | -   | -              |
| Of which: Unrealized gains from adjustment to fair value of available-for-sale securities               | 33  | (228)          |
| Of which: Net losses from cash flow hedges  | -   | 5              |
| Of which: Net losses from translation adjustments of financial statements                               | (2)   | (2)            |
| Of which: Capital reserves  | 129   | 153            |
| Of which: Preferred share capital   | -   | -              |
| Of which: Qualifying as supervisory capital components  | -   | -              |
| Of which: Not qualifying as regulatory capital components and subject to transitional provisions        | -   | -              |
| <b>Of which: Other equity instruments</b>   | <b>-</b>  | <b>-</b>       |
| Of which: Qualifying as supervisory capital components  | -   | -              |
| <b>Of which: Not qualifying as regulatory capital components and subject to transitional provisions</b> | <b>-</b>  | <b>-</b>       |
| Non-controlling interests   | 1,663   | 1,437          |
| Of which: Non-controlling interests attributable to Tier I shareholders' equity                         | 646   | 589            |
| Of which: Non-controlling interest attributable to additional Tier I capital                            | -   | -              |
| Of which: Non-controlling interests attributable to Tier II capital                                     | -   | -              |
| Of which: Non-controlling interests not attributable to regulatory capital                              | 1,017   | 848            |
| <b>Total shareholders' equity</b>   | <b>36,428</b>                                     | <b>32,729</b>  |
| <b>Total liabilities and equity</b>   | <b>551,173</b>                                    | <b>485,643</b> |

# Risks Report

## As of December 31, 2025

Key sources for differences between supervisory exposure amounts and carrying amounts on the financial statements (NIS in millions):

|   | As of December 31, 2025 |                       |                                     |                          |                       |
|---|-------------------------|-----------------------|-------------------------------------|--------------------------|-----------------------|
|   | Items subject to:       |                       |                                     |                          |                       |
|   | Total                   | Credit risk framework | Counter-party credit risk framework | Securitization framework | Market risk framework |
| Carrying amount of assets according to supervisory consolidation basis                                    | 551,173                 | 513,047               | 18,490                              | -                        | 19,636                |
| Carrying amount of liabilities according to supervisory consolidation basis                               | 514,745                 | -                     | 9,208                               | -                        | -                     |
| Total net amount according to supervisory consolidation basis   | 36,428                  | 513,047               | 9,282                               | -                        | 19,636                |
| Off-balance sheet amounts   | 156,694                 | 46,948                | -                                   | -                        | -                     |
| Differences caused by potential future exposure   | 7,169                   | -                     | 7,169                               | -                        | -                     |
| Differences caused by differences in offset rules   | -                       | -                     | -                                   | -                        | -                     |
| Differences arising from variable cash collateral in derivatives operations                               | -                       | -                     | -                                   | -                        | -                     |
| Differences caused by securities provided as collateral   | -                       | -                     | -                                   | -                        | -                     |
| Differences due to balances not subject to capital requirements or subject to deduction from capital base | (89)                    | (89)                  | -                                   | -                        | -                     |
| Other differences   | 165                     | -                     | 165                                 | -                        | -                     |
| <b>Exposure amounts taken into account for supervisory purposes</b>                                       | <b>715,113</b>          | <b>559,906</b>        | <b>25,825</b>                       | <b>-</b>                 | <b>19,636</b>         |

|   | As of December 31, 2024 |                       |                                     |                          |                       |
|---|-------------------------|-----------------------|-------------------------------------|--------------------------|-----------------------|
|   | Items subject to:       |                       |                                     |                          |                       |
|   | Total                   | Credit risk framework | Counter-party credit risk framework | Securitization framework | Market risk framework |
| Carrying amount of assets according to supervisory consolidation basis                                    | 485,643                 | 465,218               | 12,177                              | -                        | 8,248                 |
| Carrying amount of liabilities according to supervisory consolidation basis                               | 452,914                 | -                     | 6,207                               | -                        | -                     |
| Total net amount according to supervisory consolidation basis   | 32,729                  | 465,218               | 5,970                               | -                        | 8,248                 |
| Off-balance sheet amounts   | 134,565                 | 40,402                | -                                   | -                        | -                     |
| Differences caused by potential future exposure   | 7,442                   | -                     | 7,442                               | -                        | -                     |
| Differences caused by differences in offset rules   | -                       | -                     | -                                   | -                        | -                     |
| Differences arising from variable cash collateral in derivatives operations                               | -                       | -                     | -                                   | -                        | -                     |
| Differences caused by securities provided as collateral   | -                       | -                     | -                                   | -                        | -                     |
| Differences due to balances not subject to capital requirements or subject to deduction from capital base | 3,212                   | 3,212                 | -                                   | -                        | -                     |
| Other differences   | 57                      | -                     | 57                                  | -                        | -                     |
| <b>Exposure amounts taken into account for supervisory purposes</b>                                       | <b>630,919</b>          | <b>508,832</b>        | <b>19,676</b>                       | <b>-</b>                 | <b>8,248</b>          |

## Glossary and index of terms included in the risk management report

Below is a summary of terms included on the Risks Report:

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

|          |   |
|----------|---|
| <b>B</b> | <p><b>Back testing</b> – A process for assessment of appropriateness of model results, which includes a comparison of model forecasts and actual results.</p> <p><b>Basel – Basel II / Basel III</b> – A framework for assessing capital adequacy and risk management, published by the Basel Committee on Banking Supervision.</p>   |
| <b>C</b> | <p><b>CRM – Credit risk mitigation</b> – Methods for mitigating credit risks, such as: Insuring credit exposure through a guarantee or a deposit.</p> <p><b>CVA – Credit Valuation Adjustment risk – CVA</b> 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).</p> <p><b>Counter-party credit risk</b> – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.</p>  |
| <b>E</b> | <p><b>Expected Shortfall VAR</b> – A model which estimates the average loss for the VAR model, beyond the confidence level specified in the VAR model.</p> <p><b>EVE – Economic Value of Equity</b> – 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.</p>   |
| <b>H</b> | <p><b>High Quality Liquid Assets (HQLA)</b> – high-quality liquid assets which can be quickly and easily converted into cash, with a small loss of value or with no such loss under a stress scenario.</p>  |
| <b>I</b> | <p><b>ICAAP – Internal Capital Adequacy Assessment Process</b> by the Bank. The process includes, among other things, setting capital targets, capital planning processes and assessment of the status of capital under a range of stress scenarios. This process is part of Pillar 2 of the Basel directive.</p>   |
| <b>K</b> | <p><b>KPI – Key Performance Indicators</b> – used as a tool to formulate insights about the status of process execution across the Bank.</p>  |
| <b>L</b> | <p><b>Loan to Value Ratio (LTV)</b> – The ratio between the approved facility when extended and the asset value.</p>  |
| <b>M</b> | <p><b>Minimum capital ratio</b> – The ratio represents the minimum regulatory capital ratios which the Bank is required to maintain, pursuant to the provisions of Proper Conduct of Banking Business Directive 201.</p>  |
| <b>P</b> | <p><b>Pillar 2</b> – The second pillar of the Basel II document, referring to the supervisory review process. This part consists of the following underlying principles:<br/>The Bank shall conduct an ICAAP, as defined above. The Supervisor of Banks shall conduct a process to assess the bank's capital adequacy assessment process, and its ability to monitor and comply with regulatory capital ratios. The bank is expected to operate above the minimum capital ratios which were set out.</p> <p><b>Pillar 3</b> – 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.</p>   |
| <b>R</b> | <p><b>Regulatory capital (total capital)</b> – Regulatory capital is composed of two tiers: Tier I capital, which includes common equity Tier I capital and additional Tier I capital. Tier II capital. As defined in Proper Conduct of Banking Business Directive 202 "Capital measurement and adequacy – Supervisory capital".</p> <p><b>Risks document</b> – 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.</p> <p><b>Risk assets</b> – 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.</p> |
| <b>S</b> | <p><b>Standard approach</b> – 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.</p> <p><b>Subordinated notes</b> – subordinated notes whose rights are subordinated to claims by other Bank creditors, except for other obligatory notes of the same type.</p> <p><b>Stress tests</b> – Term covering multiple methods designed to assess the financial standing of a banking corporation under a stress scenario.</p>  |
| <b>V</b> | <p><b>VAR</b> – A model used to assess total exposure to various market risks. The VAR (Value at Risk) arising from the model is a statistical estimate of the maximum potential loss the Bank may suffer due to materialization of market risks in a given period at a pre-determined statistical confidence level.</p> <p><b>Stressed VAR</b> – Estimate of the Value at Risk (VAR) based on historical data which describe a relevant crisis period.</p>   |

## Banking and finance terms

- A Average duration** – Average duration of bonds. Measured in years, by weighting principal and interest payments for the bond over its life, through final maturity. The average duration of bonds reflects the financial instrument's sensitivity to changes in interest rates. Average duration is calculated as the ratio of weighted average payments to price of the bond.
- B Bonds** – Securities which are an issuer's undertaking to pay to bond holders the issued principal and interest on set dates or upon fulfillment of certain conditions.
- C Credit underwriting** – A process which includes analysis and assessment of credit risk inherent in a transaction and approval of such transaction in conformity with policy and procedures, in order to extend credit.
- D Debt under re-structuring** – Troubled 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 a modification to the terms of the debt, in order 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 the Bank's management. If such weaknesses are not addressed, the likelihood of debt repayment may decline.
- 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.
- I ISDA** – An agreement which covers transactions in derivatives between banks and allows for aggregation and offset into a single amount of net obligations of either party to all transactions together, upon occurrence of a bankruptcy event or another event which qualifies for transaction closing, according to the agreement.
- 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.
- Indebtedness** – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
- N Non-accruing debt** – Debt is classified as non-accruing debt when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Furthermore, any debt whose terms and conditions have been modified in re-structuring of problematic debt shall be classified as non-accruing 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.
- Troubled debt** – Debt classified under one of the following negative classifications: Special supervision, subordinate or Non-accruing debt.
- O Off-balance sheet credit** – engagements for provision of credit and guarantees (excluding derivative instruments).
- R Recorded debt balance** – The debt balance, including recognized accrued interest, un-amortized premium or discount, net deferred commissions or net deferred costs charged to the debt balance and not yet amortized, net of any debt amount subject to accounting write-off.
- Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
- S Syndication** – Loan extended jointly by a group of lenders.

## Terms with regard to regulatory directives

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

## Other terms

- S SOX** – US legislation, partially adopted by the Bank of Israel, designed to regulate responsibilities and internal controls over financial reporting and disclosure at the organization.



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