Bank Mizrahi Tefahot

Condensed quarterly financial statements
As of March 31, 2023

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

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Bank Mizrahi Tefahot

Report of the Board of Directors and Management

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Condensed Report of the Board of Directors and Management for financial statements as of March 31, 2023

Introduction

The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on May 16, 2023, resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of March 31, 2023.

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

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

For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by banks in the United States (see also Note 1 to the financial statements as of December 31, 2022 and Note 1 to these condensed financial statements).

Pursuant to the report structure stipulated by the Supervisor of Banks, additional information to the financial statements is provided on the Bank website:

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

This additional information of which:

- Detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB).
- Details of capital instruments issued by the Bank.
- Financial statements in XBRL file.

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

Forward-looking information

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

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

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

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

Overview, objectives and strategy

This chapter describes major developments in the Bank and its operating segments in the first quarter of 2023, in performance, risk to which the Bank is exposed as well as targets and strategy. This chapter should be read, as needed, in conjunction with the chapter "Overview, targets and strategy" in the 2022 audited annual financial statements.

Condensed financial information and key performance indicators for the Bank Group

	2023	2022				2022
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual
	NIS in millions					
Statement of profit and loss – key items						
Interest revenues, net	3,146	2,952	2,691	2,453	2,144	10,240
Non-interest financing revenues	87	198	263	176	117	754
Commissions and other revenues	593	569	579	574	952	2,674
Total revenues	**3,826**	**3,719**	**3,533**	**3,203**	**3,213**	**13,668**
Expenses with respect to credit losses	227	191	155	107	79	532
Operating and other expenses	1,437	1,814	1,529	1,442	1,388	6,173
Of which: Payroll and associated expenses	931	1,194	1,002	924	909	4,029
Pre-tax profit	2,162	1,714	1,849	1,654	1,746	6,963
Provision for taxes on profit	747	580	635	572	569	2,356
Net profit[(1)]	**1,367**	**1,087**	**1,178**	**1,053**	**1,154**	**4,472**

Group net profit in the first quarter of 2023 amounted to NIS 1,367 million, compared to NIS 1,154 million in the corresponding period last year – an increase by 18.5%. This reflects a 22.4% annualized return on equity, compared to 21.9% in the corresponding period last year and 20.1% for all of 2022. Excluding effect of capital gain, net from sale of assets, net profit return on equity in the first quarter of 2022 is 16.6% and 19.0% in 2022.

The following major factors affected Group operating profit in the first quarter of 2023 over the corresponding period last year:

- Net interest revenues in the first quarter of 2023 increased by 43.0% over the corresponding period last year, primarily due to increase by NIS 30 billion, or 10.5%, in loans to the public compared to March 31, 2022, and to increase in the Bank of Israel interest rate (as from April 2022) and in the US Federal Reserve interest rate (as from March 2022).

  For more information see "Analysis of development of financing revenues from current operations" below.
- Other revenues in the first quarter of 2022 included capital gain amounting to NIS 371 million.
- Expenses with respect to credit losses in the first quarter of 2023 amounted to NIS 227 million due, inter alia, to increase in the group-based provision due to growth of the Bank's loan portfolio and higher risk in the market due, inter alia, to the higher interest rates.
- Total operating and other expenses increased by 3.5%.

  Operating expenses in the first quarter of 2023 were impacted by completion of the Union Bank merger into Bank Mizrahi Tefahot, which resulted in termination of some employees of the former Union Bank, closure of some Union Bank branches and reduced IT expenses.

  See below for explanation of changes in each operating expense component.

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

	As of				
	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
					NIS in millions
Balance sheet – key items					
Total assets	434,110	428,292	429,767	416,969	394,045
Loans to the public, net	312,319	307,472	304,104	298,233	282,917
Cash and deposits with banks	90,240	93,673	95,596	81,330	84,666
Securities	19,348	15,144	14,379	22,384	16,967
Buildings and equipment	1,399	1,503	1,410	1,421	1,400
Deposits from the public	348,469	344,514	345,339	327,884	312,653
Bonds and subordinated notes	34,608	33,287	31,352	35,173	36,045
Deposits from banks	7,284	6,994	7,725	8,515	6,850
Shareholders' equity(1)	24,844	23,780	22,989	22,166	21,199

Development of balance sheet items shows consistent growth in Bank business:

- Total assets as of March 31, 2023 amounted to NIS 434.1 billion, an increase by NIS 40.1 billion compared to March 31, 2022, or an increase by 10.2%.
- Loans to the public, net as of March 31, 2023 amounted to NIS 312.3 billion, an increase by NIS 29.4 billion compared to March 31, 2022, or an increase by 10.4%.
- Deposits from the public as of March 31, 2023 amounted to NIS 348.5 billion, an increase by NIS 35.8 billion compared to March 31, 2022, or an increase by 11.5%.
- Shareholders' equity as of March 31, 2023 amounted to NIS 24.8 billion, an increase by NIS 3.6 billion compared to March 31, 2022, or an increase by 17.2%. See below also the chapter "Capital adequacy".

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

Key financial ratios (in percent)

	2023	2022				2022
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual
Key performance benchmarks						
Net profit return on equity[(1)(2)]	22.4	18.5	20.8	19.4	[(9)]21.9	[(9)]20.1
Net profit return on risk assets[(1)(2)(3)]	2.15	1.77	1.96	1.82	2.07	1.91
Return on average assets[(2)]	1.27	1.01	1.11	1.04	1.17	1.08
Deposits from the public to loans to the public, net	111.6	112.0	113.6	109.9	110.5	112.0
Ratio of Tier I equity to risk components	10.12	9.94	9.92	10.00	10.01	9.94
Leverage ratio[(4)]	5.53	5.42	5.26	5.23	5.31	5.42
Liquidity coverage ratio (Quarterly)[(5)]	126	118	119	120	120	118
Net stable funding ratio[(6)]	113	115	116	114	116	115
Ratio of revenues to average assets[(2)]	3.55	3.47	3.34	3.16	3.27	3.32
Cost-income ratio – operating expenses to total revenues[(7)] (Cost Income Ratio)	37.6	48.8	43.3	45.0	[(9)]43.2	[(9)]45.2
Basic net earnings per share (in NIS)	5.32	4.23	4.59	4.11	4.50	17.47
Key credit quality benchmarks						
Ratio of balance of provision for credit losses to total loans to the public	0.98	0.93	0.91	0.88	0.89	0.93
Ratio of non-accruing debts or debts in arrears 90 days or longer to loans to the public	0.88	0.87	0.99	1.20	1.13	0.87
Expenses with respect to credit losses to loans to the public, net for the period[(2)]	0.29	0.25	0.20	0.14	0.11	0.17
Net accounting write-offs as percentage of average loans to the public[(2)]	0.07	0.22	0.05	0.06	0.03	0.09
Other information						
Share price (in NIS) at end of quarter	112.6	113.9	125.5	115.5	125.2	113.9
Dividends per share (in Agorot)[(8)]	127	137	123	–	106	366
Ratio of net interest revenues to average assets[(2)]	2.92	2.75	2.54	2.42	2.18	2.48
Ratio of commissions to average assets[(2)]	0.49	0.47	0.49	0.50	0.53	0.50

Financial ratios indicate as follows:

- Net profit return on equity in the first quarter of the year was 22.4%, primarily due to increase in activity volume and to impact of higher interest and inflation.
- The ratio of Tier I capital to risk components increased to 10.12%. The minimum ratio required of the Bank is 9.60%.
- The cost-income ratio for the first quarter of 2023 was 37.6%.

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

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Annualized.
(3) Net profit to total average risk assets.
(4) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218.
(5) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.
(6) Net stable funding ratio – a liquidity ratio stipulated by the Supervisor of Banks, in conformity with recommendations of the Basel Committee, designed to maintain a sustainable financing structure over time, in addition to the liquidity coverage ratio. Calculated based on total net stable funding required for 12 months, derived from all Bank uses, to total net stable funding available for 12 months, calculated for all Bank sources.
(7) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(8) The dividends per share is calculated based on the amount of the dividends actually distributed in the reported period.
(9) Excluding effect of capital gain, net from sale of assets, net profit return on equity and the cost-income ratio in 2022 were 19.0% and 46.4%, and in the first quarter of 2022: 16.6% and 48.8%, respectively.

Key risks

As part of the Bank's risk mapping process, the list of major risks was specified as follows: Credit risk (and credit concentration), market risk, interest risk (and, in particular, interest risk in the bank portfolio), liquidity risk, operational risk, including information security and cyber risk, IT risk and legal risk, compliance and regulatory risk, cross-border and AML risk, reputational risk and strategic-business risk. The Bank regularly reviews the risks mapping to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements.
For more information see chapter "Key risks" of the 2022 Report by the Board of Directors and Management.
Information about developments of risks is presented in the chapter "Risks overview" below and in the Risks Report on the Bank website.
See below for updates on estimated potential impact of various risk factors on the Bank Group, in chapter "Risks overview".

Business goals and strategy

Strategic plan

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

Developments in capital structure

Investments in Bank capital and transactions in Bank shares

For more information about share issuance as part of the employee stock option plan, see report of changes to shareholders' equity on the financial statements.

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.

Developments in financing sources

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

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

Deposits

The Bank distinguishes between different source types by term and by customer type. The Bank reviews the degree of depositor concentration, and in this regard the Board of Directors and management have set limits and guidelines for concentration risk with regard to a single depositor, liquid means with regard to large / institutional depositors and source structure. Quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk –have been specified as part of liquidity risk management.
Deposits from the public for the Group as of March 31, 2023 amounted to NIS 348.5 billion, compared to NIS 344.5 billion at end of 2022, an increase by 1.1%. In the first quarter of 2023, deposits from the public in the NIS-denominated, non-CPI linked segment decreased by 0.9%; deposits in the CPI-linked segment increased by 11.6%; and deposits denominated in or linked to foreign currency increased by 6.0%. For more information see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

Issuance of obligatory notes, bonds and complex capital notes

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

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

Total bonds and subordinated notes as of March 31, 2023 amounted to NIS 34.6 billion, compared to NIS 33.3 billion as of December 31, 2022.

Of these, contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off (compliant with Basel III qualification provisions and recognized by the supervisor of Banks as Tier II capital), as of March 31, 2023, amounted to NIS 6.1 billion, compared to NIS 6.0 billion as of December 31, 2022.

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

Issuance and redemption of funding sources

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

Significant developments in human resources and administration

Changes to management and organizational structure of the Bank

On February 12, 2023, the Bank Board of Directors approved the recommendation by the Bank President & CEO, to appoint Mr. Ofer Hurwitz, who served as Bank Secretary and Head of the Bank Headquarters, to be Deputy CEO and Manager, Risks Control Division, replacing Mr. Doron Klauzner who retired. The Supervisor of Banks announced that they had no objection to this appointment, subject to putting in place a training program on risk management; The Board of Directors' Risk Management Committee approved such a program.

Mr. Hanan Kikuzashvili, who served as Deputy Bank Secretary, was appointed Bank Secretary and Head of Bank Headquarters, replacing Mr. Ofer Hurwitz. Ms. Meital Harush, who served as Manager, LIVE and Direct Banking Sector, was appointed Deputy CEO and Manager, Human Capital and Resources Division, replacing Mr. Nissan Levi, who announced their wish to conclude their term in office as Manager, Human Capital, Resources and Operations Division. The Board of Directors also approved the creation of two new sectors: Banking Operation Sector and Enterprise-Wide Projects Sector, whose managers were appointed part of Bank management. The Banking Operation Sector, which includes inter alia the back-office operations, engineering and banking processes, clearing house and mortgage insurance agency, is headed by Mr. Micha Argaman, who served as Deputy Manager of the Human Capital, Resources and Operations Division. The Enterprise-Wide Projects Sector, which is responsible inter alia for the Bank's digital operations, further implementation and deployment of the new CRM system and collaboration with FinTech companies, is headed by Mr. Tal Ben Ari, until recently VP and Manager, Finance Division of Union Bank.

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

Union Bank employee onboarding agreements

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

Conclusion of term in office of Bank Yahav CEO

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

Other matters

Monetary sanction

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

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

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 10.B.(2-3) to the financial statements.

Explanation and analysis of results and business standing

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

Trends, phenomena and material changes

General environment and impact of external factors on the Bank Group

Major developments in the banking sector in Israel and overseas

For extensive information about trends in the banking sector in Israel and overseas in recent years, see chapter "Explanation and analysis of results and business standing" on the 2022 Report of the Board of Directors and Management.

Developments in the Israeli and global economy in 2023

Israeli economy

As from the first quarter of 2023, there has been uncertainty in view of Government plans to promote changes to the judicial system and the public disagreement with regard to this move. At this time, it is not possible to anticipate the developments and their impact on the Israeli economy and on the Bank.

Real developments

Economic activity in Israel remained high in the first quarter of 2023, although some activity benchmarks were somewhat more moderate.

The Bank of Israel Composite Index increased in the January to March of this year at an annualized rate of 2.3%, similar to the increase rate in 2022 and increase by 9.0% in 2021.

The unemployment rate (for those aged 15 or higher, net of seasonality) in March 2023 was at 3.9%, compared to 4.2% in December 2022. The number of vacant jobs in the economy is decreasing, but remained high at 131 thousand jobs in March.

GDP in Israel in 2022 increased at an annualized 6.5%, further to strong 8.6% annualized growth in 2021 and following a 1.9% decrease in 2020. According to forecast by the Bank of Israel Research Division dated April 2023, GDP in Israel is expected to grow by 2.5% in 2023. The average unemployment rate in 2023 is expected to be 4.1%.

Inflation and exchange rates

In the first three months of this year, the Consumer Price Index increased by 1.2%, compared to an increase by 1.5% in the corresponding period last year. In the 12 months ended March 2023, the CPI increased by 5.0%, higher than the Bank of Israel target range. The increase in CPI was primarily affected by higher local demand and higher energy and commodity prices world-wide. All CPI components were higher, except for furniture, home equipment, clothing and footwear.

In the first quarter of this year, the NIS was devalued by 2.7% against the USD. The devaluation of the NIS increased inflationary pressures.

Below is information about official exchange rates and changes there to:

	March 31, 2023	December 31, 2022	Change in %
Exchange rate of:			
USD (in NIS)	3,615	3,519	2.7
EUR (in NIS)	3,932	3,753	4.8

On May 7, 2023 the USD/NIS exchange rate was 3.647, a devaluation by 0.9% compared to March 31, 2023. On that date, the EUR/NIS exchange rate was 4.022, a devaluation by 2.3% compared to March 31, 2023.

Monetary policy

Following the higher inflation and housing prices, and given the stability of the economic activity and labor market, the Bank of Israel continued to gradually raise interest rates. This was similar to trends at many central banks around the world. In April 2023, the Bank of Israel interest rate reached 4.5%, compared to 0.10% at the end of 2021. In its interest rate decision in April 2023, the Monetary Committee noted that the pace of interest rate increases would be determined by data for activity and inflationary evolution. The forecast by the Bank of Israel Research Division, dated April 2023, estimates that the average interest rate in the first quarter of 2024 would be 4.75%.

Fiscal policy

In the first three months of 2023, the Government budget recorded a NIS 14.1 billion cumulative surplus, compared to NIS 24.1 billion budget surplus in the corresponding period last year. The deficit rate as percentage of GDP for the 12 months ended in March 2023 was 0.01%. In the first three months of 2023, Government expenditure increased by 4.4% compared to the corresponding period last year; Excluding expenses for addressing the Corona Virus crisis, Government expenditure increased by 6.5%. Tax collection decreased by a nominal 4.8% compared to the corresponding period last year.

In April, Moody's kept Israel's credit rating unchanged at A1, and decreased the rating outlook from Positive to Stable. The rating decision noted that making extensive changes to the judicial system without extensive agreement should lead to weakening of public institutions in Israel, and that emergence of a continuous political-social crisis may negatively impact Israel's economy, which may result in lowering of Israel's credit rating.

On May 12, 2023, rating agency S&P announced it would leave Israel's credit rating unchanged at AA- / Stable outlook.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, new apartments sold (net of seasonal effect) in the first two months of 2023 was 5.2 thousand apartments, a decrease by 39.5% over the corresponding period last year and by 32.3% over the corresponding period in 2021. In the first three months of 2023, residential mortgages extended to the public amounted to NIS 19.0 billion, compared to NIS 34.8 billion in the corresponding period last year and NIS 22.5 billion in the corresponding period in 2021 – a decrease by 45% and 16%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices, in terms of twelve months ended February 2023, increased by 12.7%. In 2022, prices of owned housing increased by 17.0% and in 2021 – by 11.5%.

Capital market

Trading on Israeli equity markets in major indexes in the first quarter of 2023 was negative, as opposed to trading on stock exchanges in the USA and world-wide.

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

	2023	**2022**			
CPI	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Tel-Aviv 35	(3.2)	(2.2)	0.5	(9.5)	2.2
Tel-Aviv 125	(4.8)	(3.8)	–	(10.2)	2.0
Tel-Aviv 90	(9.0)	(7.9)	(1.7)	(11.6)	2.3

The average daily trading volume of shares and convertible securities in the first quarter of 2023 amounted to NIS 2.2 billion on average – compared to NIS 2.6 billion in the corresponding period last year. In 2022, the average daily trading volume amounted to NIS 2.3 billion.

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

	2023	**2022**			
CPI	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
All-Bond general	–	(0.6)	(2.2)	(2.3)	(3.4)
Government bonds, CPI-linked	0.7	(0.8)	(2.5)	(3.0)	(3.9)
Government bonds, non-linked	(0.4)	(0.2)	(2.3)	(2.1)	(4.5)
Tel-bond 20	0.3	(1.1)	(2.5)	(3.8)	(3.0)
Tel-bond 40	0.5	(1.0)	(1.9)	(2.8)	(2.5)

Global economy

According to the IMF forecast dated April 2023, global GDP growth in 2023 should be 2.8% – lower by 0.1 percentage point from the previous forecast, compared to 3.4% growth in 2022. The lower expected GDP growth is due to global inflation, geo-political tension and the banking crisis in the USA.

The US economy grew in the first three months of 2023 at an annualized 1.1%, following growth by 2.1% in 2022 and growth by 5.9% in 2021. This was due to growth in private consumption, public expenditure and exports. In 2022, the inflation rate rose to a record of 9.1% for the 12 months ended in June, and decreased to 5.0% in March 2023. The high inflation rate led the Fed to raise monetary interest rates in early May 2023 to 5.25%. The Purchasing Manager index in the services sector indicated expansion in the first quarter of this year, while the Purchasing Manager indexes in the industrial sector indicated contraction. Unemployment in March 2023 was at 3.5%, similar to its level prior to the crisis.

GDP in the Euro Zone in the first three months of 2023 increased at an annualized 0.3%, compared to 3.5% growth for all of 2022 and 5.3% growth for all of 2021. The inflation rate decreased slightly, to 7.0% in April 2023, after a reading of 10.6% in October 2022. The inflation rate, which exceeds the ECB target, resulted in a gradual increase of the monetary interest rate, and in early May 2023, interest paid on deposits increased to 3.25%. The Purchasing Manager Index in economic sectors indicates contraction in the first quarter, whereas the Purchasing Manager Index in service sectors indicated expansion.

China's economy grew in the first three months of 2023 at an annualized 4.5%, following growth by 3.0% in 2022 and growth by 8.1% in 2021. In the first quarter of 2023, growth in economic activity in China was faster, due to multiple relief measures with regards to travel restrictions imposed due to COVID outbreaks.

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

	2023	2022			
CPI	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Dow Jones	0.4	15.4	(6.7)	(11.3)	(4.6)
S&P 500	7.0	7.1	(5.3)	(16.5)	(5.0)
NASDAQ 100	20.5	(0.3)	(4.6)	(22.5)	(9.1)
DAX	12.3	14.9	(5.2)	(11.3)	(9.3)
FTSE 100	2.4	8.1	(3.8)	(4.6)	1.8
CAC	13.1	12.4	(2.7)	(11.1)	(6.9)
Nikkei	7.5	0.6	(1.7)	(5.1)	(3.4)

Major and emerging risks

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

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

Since early 2023, there has been uncertainty in view of Government plans to promote changes to the judicial system and the public disagreement with regard to this move. At this time, it is not possible to anticipate the developments and their impact on the Israeli economy and on the Bank.

For more information, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, see chapter "Risks Overview" below, the Risks Report for the first quarter of 2023 and the Risks Report for 2022, available on the Bank website:
www.mizrahi-tefahot.co.il > About the Bank > Investor Relations > Financial Information.

Events after the balance sheet date

- On May 3, 2023, after the balance sheet date, the Bank Board of Directors, after receiving approval from the Remuneration Committee, approved the offering of options to the Bank President & CEO and to officers of the Bank (other than Bank Board members) and to other managers at the Bank and at subsidiaries of the Bank, with respect to 2023. See Note 16 to the financial statements for additional information.
- For more information about dividend distribution with respect to earnings of the first quarter of 2023, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholder equity and the Note "Events after the balance sheet date" of these condensed financial statements.

Material developments in revenues, expenses and other comprehensive income

Group net profit in the first quarter of 2023 amounted to NIS 1,367 million, compared to NIS 1,154 million in the corresponding period last year – an increase by 18.5%. This reflects a 22.4% annualized return on equity, compared to 21.9% in the corresponding period last year and 20.1% for all of 2022. Excluding effect of capital gain, net from sale of assets, net profit return on equity in the first quarter of 2022 is 16.6% and 19.0% in 2022.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues(1) in the first quarter of 2023 amounted to NIS 3,233 million, compared to NIS 2,261 million in the corresponding period last year, an increase by 43.0%.

Net interest revenues and non-interest financing revenues(1) from current operations in the first quarter of 2023, amounted to NIS 2,942 million, as described below, compared to NIS 1,834 million in the corresponding period last year, an increase by 60.4%.

The increase in operating revenues in the first quarter of 2023 was achieved in view of increase in activity due, inter alia, to increase by 10.5% in loans to the public compared to the corresponding period last year and to increase in Bank of Israel interest rates (as from April 2022) and interest of the US Federal Reserve (as from March 2022).

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

	2023	2022				Change rate in %
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	First quarter of 2023 compared to first quarter of 2022
Interest revenues, net	3,146	2,952	2,691	2,453	2,144	
Non-interest financing revenues(1)	87	198	263	176	117	
Total financing revenues	**3,233**	**3,150**	**2,954**	**2,629**	**2,261**	**43.0**
Net of:						
Effect of the Consumer Price Index	308	270	267	379	228	
Revenues from interest collected with respect to problematic debts	9	12	22	20	13	
Gains (losses) from bonds, shares and real investments	(44)	(12)	25	(48)	32	
Effect of accounting treatment of derivatives at fair value and others(2)	18	(19)	14	182	154	
Total effects other than from current operations	**291**	**251**	**328**	**533**	**427**	
Total financing revenues from current operations	**2,942**	**2,899**	**2,626**	**2,096**	**1,834**	**60.4**

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

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

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

	For the three months ended March 31			
Operating segment	2023	2022	Change amount	Change rate (In %)
Private individuals:				
Households – residential mortgages	689	603	86	14.3
Households – other	875	362	513	–
Private banking	83	23	60	–
Total individuals	**1,647**	**988**	**659**	**66.7**
Business operations:				
Small and micro businesses	637	357	280	78.4
Medium businesses	149	93	56	60.2
Large businesses	315	156	159	–
Institutional investors	58	34	24	70.6
Total business activity	**1,159**	**640**	**519**	**81.1**
Financial management	333	578	(245)	(42.4)
Total activity in Israel	**3,139**	**2,206**	**933**	**42.3**
Overseas activity	94	55	39	70.9
Total	**3,233**	**2,261**	**972**	**43.0**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach – see chapter "Supervisory operating segments" below.

Below are average balances of interest-bearing on-balance sheet assets attributed to activity in Israel, in various linkage segments (NIS in millions):

	First quarter		
Linkage segment	2023	2022	Change in %
Israeli currency – non-linked	291,279	271,881	7.1
Israeli currency – linked to the CPI	81,281	75,298	7.9
Foreign currency (including Israeli currency linked to foreign currency)	16,617	17,171	(3.2)
Total	**389,177**	**364,350**	**6.8**

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

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

	First quarter	
Linkage segments	2023	2022
Israeli currency – non-linked	2.36	2.02
Israeli currency – linked to the CPI	1.57	1.42
Foreign currency	1.10	1.20
Total	**2.10**	**1.73**

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

Changes in interest spreads:

The increase in interest rate spread in the non-linked NIS segment is primarily due to the higher interest rates compared to the corresponding period last year.
The interest rate spread in the foreign currency segment shown excludes the effect of derivatives. Including the effect of derivatives, the interest rate spread in the foreign currency segment increased.
For composition of interest rate spreads by different criteria (activity type, linkage segment and quantity and price analysis), more information about non-interest bearing assets and liabilities and information about overseas activities, see appendix "Interest Revenue and Expense Rates" to the quarterly financial statements.
Interest revenues, net and non-interest financing revenues are impacted by the change in interest rates and by the change in activity, as reflected in balances of loans and deposits.
For more information about average balances of loans to the public and deposits from the public, and about revenues from the loan/deposit spread by operating segment, see Note 12 to the financial statements.
For more information about the impact of scenarios of changes to interest rates on interest revenues, net and on non-interest financing revenues, see chapter "Market risk and interest risk" below.

Expenses with respect to credit losses for the Group amounted to NIS 227 million in the first quarter of 2023, or an annualized rate of 0.29% of total loans to the public, net, compared with expenses amounting to NIS 79 million in the corresponding period last year – an annualized rate of 0.11% of total loans to the public, net. The increase is primarily due to increase in the group-based provision due to growth of the Bank's loan portfolio and higher risk in the market due, inter alia, to the higher interest rates.

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

	First quarter	
	2023	**2022**
Expenses with respect to credit losses on individual basis (including accounting write-offs)		
Increased expenses	152	81
Decreased expenses	(67)	(55)
Total individual expense for credit losses	**85**	**26**
Expenses for credit losses on group basis		
with respect to residential mortgages	42	14
Other	100	39
Total group expense for credit losses	**142**	**53**
Total expenses with respect to credit losses	**227**	**79**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized):	**0.29%**	**0.11%**
Of which: with respect to commercial loans other than residential mortgages	**0.65%**	**0.26%**
Of which: with respect to residential mortgages	**0.08%**	**0.03%**
Rate of the expenses with respect to individual provision for credit losses, as percentage of total loans to the public, net (annualized):	**0.11%**	**0.04%**

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

	First quarter		**Expense rate for credit losses(1) in the first quarter**	
Operating segment	**2023**	**2022**	**2023**	**2022**
Private individuals:				
Households – residential mortgages	42	14	0.08	0.03
Households – other	(2)85	5	1.25	0.08
Private banking	–	(1)	–	(3.33)
Total individuals	**127**	**18**	**0.23**	**0.03**
Business operations:				
Small and micro businesses	(2)80	43	0.94	0.55
Medium businesses	(12)	(19)	(0.39)	(0.67)
Large businesses	20	30	0.25	0.47
Institutional investors	–	4	–	0.80
Total business activity	**88**	**58**	**0.44**	**0.33**
Financial management	–	–	–	–
Total activity in Israel	**215**	**76**	**0.28**	**0.11**
Overseas activity	(2)12	3	0.67	0.25
Total	**227**	**79**	**0.29**	**0.11**

(1) Expenses with respect to credit losses, as percentage of total loans to the public, net (annualized) (in %).
(2) The increase in provision for credit losses is primarily due to increase in the group-based provision due to higher risk in the market due to the higher interest rates.

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach – see chapter "Supervisory operating segments" below.

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

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

Non-interest revenues amounted to NIS 680 million in the first quarter of 2023, compared with NIS 1,069 million in the corresponding period last year – a decrease by NIS 389 million, primarily due to capital gain of NIS 371 million recorded in the first quarter of 2022.

Non-interest financing revenues in the first quarter of 2023 amounted to NIS 87 million, compared to NIS 117 million in the corresponding period last year.

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

Commission revenues in the first quarter of 2023 amounted to NIS 528 million, compared to NIS 520 million in the corresponding period last year – an increase by 1.5%.

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

	First quarter		Annual
	2023	**2022**	**2022**
Account management	112	110	440
Activities involving securities	63	76	336
Conversion differences	96	85	258
Commissions from financing transactions	82	76	311
Credit cards	68	65	260
Credit processing[(1)]	37	40	157
Other commissions	70	68	290
Total commissions	**528**	**520**	**2,052**

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

Other revenues in the first quarter of 2023 amounted to NIS 65 million, compared to NIS 432 million in the corresponding period last year.

Other revenues in the first quarter of 2022 include capital gain amounting to NIS 371 million.

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

Operating and other expenses in the first quarter of 2023 amounted to NIS 1,437 million, compared to NIS 1,388 million in the corresponding period last year, an increase by 3.5%.

For details by operating expense component, see below.

Payroll and associated expenses in the first quarter of 2023 amounted to NIS 931 million, compared to NIS 909 million in the corresponding period last year – an increase by 2.4%. Payroll expenses were affected, *inter alia*, by adjustment to variable remuneration components due to the financial results, offset by termination of employment of some former Union Bank employees.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 306 million in the first quarter of 2023, compared with NIS 237 million in the corresponding period last year, an increase by NIS 69 million primarily due, inter alia, to non-recurring impact of asset write-down.

Other expenses in the first quarter of 2023 amounted to NIS 200 million, compared to NIS 242 million in the corresponding period last year, a decrease by 17.4% due to cost savings arising from the merger of Union Bank into Bank Mizrahi Tefahot.

Cost-Income ratio information is as follows[(1)] (in percent):

	2023	**2022**				**2022**
	First quarter	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**	**Annual**
Cost Income Ratio	37.6	48.8	43.3	45.0	[(2)]43.2	[(2)]45.2

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

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

Group profit before taxes in the first quarter of 2023 amounted to NIS 2,162 million, compared to NIS 1,746 million in the corresponding period last year, an increase by 23.8%. For a detailed explanation, see above.

The provision rate for taxes on profit in the first quarter of 2023 was 34.6% – compared to 32.6% in the corresponding period last year.

Bank share of after-tax profit of associates – in the first quarter of 2023 and in the first quarter of 2022, the Bank recognized gain with respect to associates amounting to NIS 1 million.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first quarter of 2023 amounted to NIS 49 million, compared to NIS 24 million in the corresponding period last year. The increase in Bank Yahav profit is due to increase in interest revenues due to increase in activity and to increase in interest rates.

Net profit attributable to shareholders of the Bank in the first quarter of 2023 amounted to NIS 1,367 million, compared to NIS 1,154 million in the corresponding period last year.

Bank shareholder equity also includes an increase by NIS 17 million in the first quarter of this year, from adjustments with respect to employee benefits and from adjustments with respect to presentation of bonds available for sale at fair value ("Other comprehensive income attributable to shareholders of the Bank"), compared to decrease by NIS 98 million in the corresponding period last year. For more information see Note 4 to the financial statements.

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

	2023	2022				2022
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual
Net profit return on equity	22.4	18.5	20.8	19.4	(5)21.9	(5)20.1
Ratio of Tier I equity to risk components at end of quarter	10.12	9.94	9.92	10.00	10.01	9.94
Liquidity coverage ratio (Quarterly)	126	118	119	120	120	118
Leverage ratio at end of quarter	5.53	5.42	5.26	5.23	5.31	5.42

(1) Annualized.

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

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

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

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

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

	2023	2022				2022
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual
Basic earnings per share	5.32	4.23	4.59	4.11	4.50	17.47
Diluted earnings per share	5.30	4.21	4.56	4.09	4.43	17.38
Dividends per share	127	137	123	–	106	366

Analysis of developments in assets, liabilities, equity and capital adequacy

Assets and liabilities

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

				Change in % compared to	
		March 31	December 31	March 31	December 31
	2023	2022	2022	2022	2022
Total assets	434,110	394,045	428,292	10.2	1.4
Cash and deposits with banks	90,240	84,666	93,673	6.6	(3.7)
Loans to the public, net	312,319	282,917	307,472	10.4	1.6
Securities	19,348	16,967	15,144	14.0	27.8
Buildings and equipment	1,399	1,400	1,503	(0.1)	(6.9)
Deposits from the public	348,469	312,653	344,514	11.5	1.1
Deposits from banks	7,284	6,850	6,994	6.3	4.1
Bonds and subordinated notes	34,608	36,045	33,287	(4.0)	4.0
Shareholder's equity	24,844	21,199	23,780	17.2	4.5

Cash and deposits with banks – the balance of cash and deposits with banks decreased in the first quarter of 2023 by NIS 3.4 billion, due to increase in deposits from the public and as part of on-going management of Bank liquidity.

Loans to the public, net – loans to the public, net as of March 31, 2023 and as of December 31, 2022 accounted for 72% of total assets. Loans to the public, net for the Group increased in the first quarter of 2023 by NIS 4.8 billion, an increase by 1.6%.

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

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

				Change in % compared to	
		March 31	December 31	March 31	December 31
	2023	2022	2022	2022	2022
Israeli currency					
Non-linked	217,756	199,482	215,424	9.2	1.1
CPI-linked	78,230	71,054	76,228	10.1	2.6
Foreign currency, including linked to foreign currency	16,333	12,381	15,820	31.9	3.2
Total	**312,319**	**282,917**	**307,472**	**10.4**	**1.6**

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

				Change in % compared to	
		March 31	December 31	March 31	December 31
	2023	2022	2022	2022	2022
Private individuals:					
Households – residential mortgages	197,847	181,311	195,820	9.1	1.0
Households – other	27,104	26,498	27,064	2.3	0.1
Private banking	135	120	153	12.5	(11.8)
Total individuals	**225,086**	**207,929**	**223,037**	**8.3**	**0.9**
Business operations:					
Small and micro businesses	33,869	31,355	34,152	8.0	(0.8)
Medium businesses	12,199	11,363	12,704	7.4	(4.0)
Large businesses	31,788	25,553	28,519	24.4	11.5
Institutional investors	2,202	1,999	2,556	10.2	(13.8)
Total business activity	**80,058**	**70,270**	**77,931**	**13.9**	**2.7**
Overseas activity	7,175	4,718	6,504	52.1	10.3
Total	**312,319**	**282,917**	**307,472**	**10.4**	**1.6**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach – see chapter "Supervisory operating segments" below.

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

Reported amounts								**Credit risk[(1)]**
(NIS in millions)	**As of March 31, 2023**				**As of March 31, 2022**			
	Commercial	**Residential**	**Individual**	**Total**	**Commercial**	**Residential**	**Individual**	**Total**
Credit risk at performing credit rating[(2)]								
On-balance sheet credit risk	88,180	195,124	25,989	309,293	76,566	178,844	24,871	280,281
Off-balance sheet credit risk[(3)]	53,995	11,677	14,711	80,383	49,979	21,299	14,121	85,399
Total credit risk at performing credit rating	**142,175**	**206,801**	**40,700**	**389,676**	**126,545**	**200,143**	**38,992**	**365,680**
Credit risk other than at performing credit rating								
A. Non-problematic	2,822	2,271	317	5,410	2,389	1,909	277	4,575
B. Problematic accruing	1,337	–	163	1,500	694	–	141	835
C. Problematic non-accruing	1,168	1,506	53	2,727	1,121	1,472	59	2,652
Total on-balance sheet credit risk other than at performing credit rating	**5,327**	**3,777**	**533**	**9,637**	**4,204**	**3,381**	**477**	**8,062**
Off-balance sheet credit risk[(3)] other than at performing credit rating	1,580	–	36	1,616	1,210	–	30	1,240
Total credit risk other than at performing credit rating	**6,907**	**3,777**	**569**	**11,253**	**5,414**	**3,381**	**507**	**9,302**
Of which: Accruing debts, in arrears 90 days or longer	39	–	47	86	37	–	25	62
Total credit risk, including risk to the public[(4)]	**149,082**	**210,578**	**41,269**	**400,929**	**131,959**	**203,524**	**39,499**	**374,982**
Non-performing assets[(5)]	**1,168**	**1,506**	**53**	**2,727**	**1,121**	**1,472**	**59**	**2,652**

Reported amounts				**Credit risk[(1)]**
(NIS in millions)	**As of December 31, 2022**			
	Commercial	**Residential**	**Individual**	**Total**
Credit risk at performing credit rating[(2)]				
On-balance sheet credit risk	84,735	193,439	25,993	304,167
Off-balance sheet credit risk[(3)]	51,915	11,349	14,475	77,739
Total credit risk at performing credit rating	**136,650**	**204,788**	**40,468**	**381,906**
Credit risk other than at performing credit rating				
A. Non-problematic	2,949	2,072	324	5,345
B. Problematic accruing	1,205	–	167	1,372
C. Problematic non-accruing	1,228	1,329	55	2,612
Total on-balance sheet credit risk other than at performing credit rating	**5,382**	**3,401**	**546**	**9,329**
Off-balance sheet credit risk[(3)] other than at performing credit rating	1,412	–	36	1,448
Total credit risk other than at performing credit rating	**6,794**	**3,401**	**582**	**10,777**
Of which: Accruing debts, in arrears 90 days or longer	69	–	44	113
Total credit risk, including risk to the public[(4)]	**143,444**	**208,189**	**41,050**	**392,683**
Non-performing assets[(5)]	**1,228**	**1,329**	**55**	**2,612**

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

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

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

(4) On- and off-balance sheet credit risk, including with respect to derivatives. Of which: Debts, bonds, securities loaned or purchased in resale agreements.

(5) Assets not accruing interest.

Credit risk is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investments in public bonds. Off-balance sheet credit risk includes guarantees and transactions in off-balance sheet instruments, commitments to extend credit and un-utilized credit facilities. Total credit risk to the public for the Bank Group as of March 31, 2023 amounted to NIS 401 billion, compared to NIS 393 billion as of December 31, 2022 – an increase by 2.0%.
For more information about credit risk with respect to individuals (excluding residential mortgages), credit risk in the construction and real estate economic sector in Israel and residential mortgage risk, see chapter "Credit risk".

See Notes 6 and 13 to the financial statements for further information.

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

	As of March 31, 2023				As of March 31, 2022			
	Commercial	Residential	Individual	Total	Commercial	Residential	Individual	Total
Analysis of quality of loans to the public								
Non-accruing credit as percentage of total loans to the public	1.27	0.76	0.20	0.86	1.39	0.81	0.23	0.92
Non-accruing credit in arrears 90 days or longer as percentage of total loans to the public	1.32	0.76	0.38	0.88	1.43	0.81	0.33	0.94
Problematic credit as percentage of total loans to the public	2.76	0.76	0.81	1.33	2.19	0.81	0.79	1.18
Credit not at performing credit rating as percentage of total loans to the public	7.68	1.90	2.15	3.57	6.95	1.86	2.00	3.26
Analysis of expenses with respect to credit losses for the reported period								
Expenses with respect to credit losses as percentage of average balance of loans to the public	0.11	0.02	0.32	0.07	0.08	0.01	0.02	0.03
Net accounting write-offs as percentage of average balance of loans to the public	0.03	–	0.11	0.02	(0.01)	–	(0.05)	(0.01)
Analysis of provision for credit losses with respect to loans to the public								
Provision for credit losses as percentage of total loans to the public	1.96	0.47	2.14	1.04	1.99	0.43	1.64	0.96
Provision for credit losses as percentage of total loans to the public non-accruing	154	63	1,072	121	144	53	703	105
Provision for credit losses as percentage of total loans to the public non-accruing or in arrears 90 days or longer	149	63	568	117	139	53	494	103
Expense rate with respect to credit losses from net accounting write-offs	4.17	–	2.93	4.28	6.38	–	1.17	3.95

	As of December 31, 2022			
	Commercial	Residential	Individual	Total
Analysis of quality of loans to the public				
Non-accruing credit as percentage of total loans to the public	1.37	0.68	0.21	0.83
Non-accruing credit in arrears 90 days or longer as percentage of total loans to the public	1.45	0.68	0.37	0.87
Problematic credit as percentage of total loans to the public	2.76	0.68	0.84	1.27
Credit not at performing credit rating as percentage of total loans to the public	7.81	1.73	2.19	3.47
Analysis of expenses with respect to credit losses for the reported period				
Expenses with respect to credit losses as percentage of average balance of loans to the public	0.41	0.05	0.38	0.18
Net accounting write-offs as percentage of average balance of loans to the public	0.25	–	0.26	0.09
Analysis of provision for credit losses with respect to loans to the public				
Provision for credit losses as percentage of total loans to the public	1.94	0.46	1.93	1.00
Provision for credit losses as percentage of total loans to the public non-accruing	142	68	931	120
Provision for credit losses as percentage of total loans to the public non-accruing or in arrears 90 days or longer	134	68	517	115
Expense rate with respect to credit losses from net accounting write-offs	1.66	–	1.45	1.98

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

				Change in % compared to	
		March 31	December 31	March 31	December 31
	2023	2022	2022	2022	2022
Off-balance sheet financial instruments other than derivatives[1]:					
Unutilized debitory account and other credit facilities in accounts					
On-call, un-utilized	23,762	20,993	21,772	13.2	9.1
Guarantees to home buyers	17,529	17,666	19,069	(0.8)	(8.1)
Irrevocable commitments for loans approved but not yet granted	21,602	32,559	21,029	(33.7)	2.7
Unutilized revolving credit card facilities	11,761	10,991	11,730	7.0	0.3
Commitments to issue guarantees	8,872	9,747	8,122	(9.0)	9.2
Guarantees and other commitments	12,451	10,999	12,881	13.2	(3.3)
Loan guarantees	3,588	3,296	3,531	8.9	1.6
Documentary credit	405	617	315	(34.4)	28.6
Derivative financial instruments[2]:					
Total par value of derivative financial instruments	348,343	316,781	299,335	10.0	16.4
(On-balance sheet) assets with respect to derivative instruments	6,257	3,333	5,789	87.7	8.1
(On-balance sheet) liabilities with respect to derivative instruments	5,988	2,945	5,214	103.3	14.8

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 13 to the financial statements for additional information.

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

For more information about analysis of on-balance sheet and off-balance sheet credit risk, see chapter "Risks" below and the Risks Report, available on the Bank website.

Securities – investment in securities increased in the first quarter of 2023 by NIS 4.2 billion. The increase in investment in securities is under asset and liability management by the Bank.

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

	Carrying amount	Amortized cost (for shares – cost)	Provision for credit losses	Gain from fair value adjustments	Loss from fair value adjustments	Fair value[1]
						March 31, 2023
Bonds held to maturity	3,194	3,194	–	–	(161)	3,033
Bonds available for sale	9,302	9,957	–	[2]39	[2](694)	9,302
Investment in shares not held for trading	576	532	–	[3]61	[3](17)	576
Securities held for trading	6,276	6,307	–	[3]6	[3](37)	6,276
Total securities	**19,348**	**19,990**	**–**	**106**	**(909)**	**19,187**
						March 31, 2022
Bonds held to maturity	2,605	2,605	–	32	(45)	2,592
Bonds available for sale	12,788	12,985	(2)	[2]117	[2](312)	12,788
Investment in shares not held for trading	704	570	–	[3]137	[3](3)	704
Securities held for trading	870	878	–	[3]11	[3](19)	870
Total securities	**16,967**	**17,038**	**(2)**	**297**	**(379)**	**16,954**
						December 31, 2022
Bonds held to maturity	3,514	3,514	–	–	(152)	3,362
Bonds available for sale	8,034	8,694	–	[2]66	[2](726)	8,034
Investment in shares not held for trading	632	584	–	[3]62	[3](14)	632
Securities held for trading	2,964	3,018	–	[3]5	[3](59)	2,964
Total securities	**15,144**	**15,810**		**133**	**(951)**	**14,992**

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

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

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

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

				Change in % compared to	
		March 31	December 31	March 31	December 31
	2023	2022	2022	2022	2022
Israeli currency					
Non-linked	8,708	7,130	6,645	22.1	31.0
CPI-linked	4,605	1,425	2,498	223.2	84.3
Foreign currency (including linked to foreign currency)	5,554	7,687	5,349	(27.7)	3.8
Non-monetary items	481	725	652	(33.7)	(26.2)
Total	**19,348**	**16,967**	**15,144**	**14.0**	**27.8**

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

	Carrying amount as of		
	March 31, 2023	March 31, 2022	December 31, 2022
Government bonds:			
Government of Israel	14,941	10,637	10,732
US Government	1,499	3,681	1,457
Total Government bonds	**16,440**	**14,318**	**12,189**
Bonds of financial institutions in Israel:			
Total bonds of financial institutions in Israel	**777**	**651**	**774**
Bonds of banks in developed nations:			
South Korea	72	65	119
USA	124	65	71
Other	76	80	72
Total bonds of banks in developed nations	**272**	**210**	**262**
Corporate bonds (by economic sector):			
Rental property	508	452	500
Power, gas, steam and air conditioning	159	180	165
Mining and excavation	101	91	95
Industrial – chemical industry	59	57	97
Construction	104	56	57
Other	279	192	298
Total corporate bonds	**1,210**	**1,028**	**1,212**
Asset-backed corporate bonds (ABS)			
Mining and excavation	55	33	53
Others	1	2	2
Total asset-backed corporate bonds (ABS)	**56**	**35**	**55**
Shares and other securities			
Investment in shares not held for trading	576	704	632
Of which: Shares for which no fair value is available[(1)]	200	410	389
Shares and other securities held for trading	17	21	20
Total shares and other securities	**593**	**725**	**652**
Total securities	**19,348**	**16,967**	**15,144**

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

For more information about investments in securities, and about impairment of a temporary nature of securities available for sale, and details of the duration of such impairment and its rate as percentage of amortized cost, see Note 5 to the financial statements.

Buildings and equipment – the balance of buildings and equipment in the first quarter of 2023 decreased by NIS 104 million. The decrease in buildings and equipment is primarily due to asset write-down.

Deposits from the public – these account for 80% of total consolidated balance sheet as of December 31, 2022 and as of March 31, 2023. In the first quarter of 2023, deposits from the public increased by NIS 4.0 billion, or by 1.1%.

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

				Change in % compared to	
		March 31	December 31	March 31	December 31
	2023	2022	2022	2022	2022
Israeli currency					
Non-linked	258,079	235,628	260,411	9.5	(0.9)
CPI-linked	24,287	22,733	21,767	6.8	11.6
Foreign currency, including linked to foreign currency	66,103	54,292	62,336	21.8	6.0
Total	**348,469**	**312,653**	**344,514**	**11.5**	**1.1**

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

				Change in % compared to	
		March 31	December 31	March 31	December 31
	2023	2022	2022	2022	2022
Private individuals:					
Households – other	127,827	119,992	125,823	6.5	1.6
Private banking	26,365	22,048	25,755	19.6	2.4
Total individuals	**154,192**	**142,040**	**151,578**	**8.6**	**1.7**
Business operations:					
Small and micro businesses	55,463	52,510	55,805	5.6	(0.6)
Medium businesses	12,486	14,426	13,570	(13.4)	(8.0)
Large businesses	37,586	36,046	39,636	4.3	(5.2)
Institutional investors	78,150	63,118	75,938	23.8	2.9
Total business activity	**183,685**	**166,100**	**184,949**	**10.6**	**(0.7)**
Overseas activity	10,592	4,513	7,987	–	32.6
Total	**348,469**	**312,653**	**344,514**	**11.5**	**1.1**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach – see chapter "Supervisory operating segments" below.

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

		March 31	December 31
	2023	2022	2022
Maximum deposit			
Up to 1	104,349	95,831	99,561
Over 1 to 10	87,536	80,011	86,771
Over 10 to 100	42,993	44,551	46,517
Over 100 to 500	35,451	34,872	35,348
Above 500	78,140	57,388	76,317
Total	**348,469**	**312,653**	**344,514**

For more information about composition of deposits from the public, see Note 7 to the financial statements.

Deposits from banks – The balance of deposits from banks as of March 31, 2023 amounted to NIS 7.3 billion, an increase by NIS 0.3 million compared to December 31, 2022.

Bonds and subordinated notes – The balance of bonds and subordinated notes as of March 31, 2023 amounted to NIS 34.6 billion, an increase by NIS 1.3 billion compared to the balance as of December 31, 2022. In the first quarter of 2023, bonds and subordinated notes were affected by issuance of commercial paper for consideration amounting to NIS 1.1 billion, by the higher CPI and by current redemptions. For more information see chapter "Developments in financing sources" above.

Capital, capital adequacy and leverage

Shareholder equity attributable to shareholders of the Bank – Shareholder equity attributable to equity holders of the Bank as of March 31, 2023 amounted to NIS 24.8 billion, compared to NIS 23.8 billion and NIS 21.2 billion as of December 31, 2022 and as of March 31, 2022, an increase by 4.5% and 17.2%, respectively.

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

	March 31		December 31
	2023	**2022**	**2022**
Share capital and premium [(1)]	3,520	3,497	3,519
Capital reserve from benefit from share-based payment transactions	98	76	99
Cumulative other comprehensive loss[(2)(3)]	(491)	(401)	(514)
Retained earnings [(4)]	21,717	18,027	20,676
Total	**24,844**	**21,199**	**23,780**

(1) For more information about share issuance, see "Condensed Statements of Changes in Shareholders' Equity".
(2) For more information about other comprehensive income (loss), see Note 4 to the financial statements.
(3) Includes actuarial obligation with respect to streamlining program for employee retirement, see Notes 22 and 25 to the 2022 financial statements.
(4) For more information about development of cumulative revenues and expenses to retained earnings in the reported period, see chapter "Material developments in revenues, expenses and other comprehensive income" above.

The ratio of shareholder equity to total assets for the Group as of March 31, 2023 was 5.72% compared to 5.55% as of December 31, 2022 and 5.38% as of March 31, 2022.

Capital adequacy

Supervisory capital

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

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

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

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

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

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

Capital planning at the Bank

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

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

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

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

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

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

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

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

Ratio of capital to risk components

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

An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance as of the report date. For more information, see Note 9. F. to the financial statements.

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

For more information about dividends, see Chapter "Dividends" to the financial statements.

For more information see Note 9 to the financial statements.

Below is data about supervisory capital and risk assets (NIS in millions):

	As of March 31		As of December 31
	2023	**2022**	**2022**
Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	26,001	22,650	25,072
Tier I capital	26,001	22,650	25,072
Tier II capital	8,262	7,664	8,015
Total capital	**34,263**	**30,314**	**33,087**
Weighted risk asset balances			
Credit risk[(1)]	237,871	209,711	234,383
Market risks	1,387	2,446	1,301
Operational Risk	17,616	14,144	16,567
Total weighted risk asset balances	**256,874**	**226,301**	**252,251**

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

	March 31, 2023	**March 31, 2022**	**December 31, 2022**
Ratio of Tier I equity to risk components	10.12	10.01	9.94
Ratio of total capital to risk components	13.34	13.40	13.12
Minimum Tier I equity ratio required by Supervisor of Banks	9.60	9.61	9.60
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.50	12.50	12.50

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

	As of March 31, 2023		**As of March 31, 2022**		**As of December 31, 2022**	
Exposure group	**Weighted risk asset balances**	**Capital requirement[(1)]**	**Weighted risk asset balances**	**Capital requirement[(1)]**	**Weighted risk asset balances**	**Capital requirement[(1)]**
Debts of sovereigns	126	16	62	8	29	4
Debts of public sector entities	364	46	530	66	371	46
Debts of banking corporations	1,861	233	1,221	153	1,748	219
Securities companies	946	118	317	40	928	116
Debts of corporations	79,799	9,975	67,178	8,397	78,486	9,811
Debts secured by commercial property	5,663	708	5,673	709	5,226	653
Retail exposures to individuals	21,043	2,630	19,778	2,472	20,935	2,617
Loans to small businesses	10,263	1,283	10,076	1,260	10,209	1,276
Residential mortgages	107,213	13,402	95,715	11,964	106,008	13,251
Other assets	9,214	1,152	8,545	1,068	9,213	1,152
Total	**236,492**	**29,563**	**209,095**	**26,137**	**233,153**	**29,145**

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

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

	As of March 31, 2023		As of March 31, 2022		As of December 31, 2022	
	Weighted risk asset balances	Capital requirement[1]	Weighted risk asset balances	Capital requirement[1]	Weighted risk asset balances	Capital requirement[1]
Market risk	1,387	173	2,446	306	1,301	163
CVA risk with respect to derivatives [2]	1,379	172	616	77	1,230	154
Operational Risk[3]	17,616	2,202	14,144	1,768	16,567	2,071
Total	**20,382**	**2,547**	**17,206**	**2,151**	**19,098**	**2,388**
Total risk assets	**256,874**	**32,110**	**226,301**	**28,288**	**252,251**	**31,533**

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

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

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

Leverage ratio

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

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

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

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

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

The Bank's leverage ratio as of March 31, 2023 is 5.53%, compared to 5.42% as of December 31, 2022.

For more information see Note 9 to the financial statements.

Below is the Bank's leverage ratio:

	As of March 31		As of December 31
	2023	2022	2022
Consolidated data			
Tier I capital	26,001	22,650	25,072
Total exposure	469,925	426,244	463,010
			In %
Leverage ratio	5.53	5.31	5.42
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50	4.50
Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	6.22	5.59	6.08
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50	4.50

Dividends

Dividend distribution policy

For more information about the Bank's current dividend distribution policy for 2021-2025, see chapter "Dividends" of the 2022 Report by the Board of Directors and Management.

Dividend distribution

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

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
August 16, 2021	August 31, 2021	188.99	(1)0.30	483.0
November 15, 2021	November 30, 2021	293.47	(2)0.30	752.7
Total dividend distributions in 2021(3)				**1,235.7**
February 28, 2022	March 15, 2022	105.89	0.40	271.6
August 15, 2022	August 30, 2022	122.91	0.30	315.9
November 28, 2022	December 13, 2022	137.43	0.30	353.4
Total dividend distributions in 2022(4)				**940.9**
March 13, 2023	March 28, 2023	126.79	0.30	326.1

(1) Dividends rate as percentage of net profit in 2020.
(2) Dividends rate as percentage of net profit in the first nine months of 2021.
(3) Total dividends distributed with respect to 2021 earnings – NIS 1,024.3 million.
(4) Total dividends distributed with respect to 2022 earnings – NIS 1,267.0 million.

Dividends declared

On May 16, 2023, the Bank's Board of Directors resolved to distribute a dividend amounting to NIS 410.1 million, or 30% of earnings in the first quarter of 2023. This is in conformity with the Bank's dividend policy and so as to enable continued future growth of the Bank, even duly noting the uncertainty with regard to developments in the macro-economic environment.

The dividends are 1593.5% of issued share capital, i.e. NIS 1.5935 per NIS 0.1 par value share. The effective date for dividends payment is May 24, 2023 and the payment date is June 1, 2023. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

Other off-balance sheet activity

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

				Change in % compared to	
		March 31	December 31	March 31	December 31
	2023	2022	2022	2022	2022
Securities(1)	498,353	527,305	497,639	(5.5)	0.1
Assets of provident funds for which the Group provides operating services	129,964	129,463	129,887	0.4	0.1
Assets held in trust by Bank Group	84,523	79,387	81,610	6.5	3.6
Assets of mutual funds for which the Group provides operating services	13,759	12,846	12,663	7.1	8.7
Other assets under management(2)	21,482	17,700	21,201	21.4	1.3

(1) Value of securities portfolios for which the Bank is custodian, held by customers, including securities of provident funds and mutual funds for which the Group provides operating services. Note that customer activity as presented includes, in addition to securities of mutual funds as aforesaid, also the value of participation units in said mutual funds held by Bank customers.
(2) Including:
–Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. The Bank receives margin or commission revenues with respect to these balances.
– Other loans managed by the Bank, including residential mortgages managed and operated by the Bank on behalf of others.

Financial information by operating segment

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

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

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

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

However, customer segmentation by supervisory operating segment is based on uniform definitions specified by the Supervisor of Banks, as set forth in Note 12 to the financial statements.

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

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

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

Supervisory segment definition.

Explanation of differences between "supervisory" definition and how business is actually managed (under "management approach").

Segment financial results (under "supervisory approach").

For more information about principles used to attribute balances, revenues and expenses to customers, see Note 12 to the financial statements.

For more information and detailed description of the segments, see chapter "Other information about the Bank and its management" of the 2022 annual report.

Financial information by supervisory operating segment

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

	Net profit		Percentage of total net profit	
	Three months		Three months	
	2023	2022	2023	2022
Private individuals:				
Households – residential mortgages	286	270	20.9	23.4
Households – other	205	(14)	15.0	–
Private banking	54	17	4.0	1.5
Total individuals	**545**	**273**	**39.9**	**23.7**
Business operations:				
Small and micro businesses	261	120	19.1	10.4
Medium businesses	89	55	6.5	4.8
Large businesses	170	63	12.4	5.5
Institutional investors	20	5	1.5	0.4
Total business activity	**540**	**243**	**39.5**	**21.1**
Financial management	241	612	17.6	53.0
Total activity in Israel	**1,326**	**1,127**	**97.0**	**97.7**
Overseas activity	41	26	3.0	2.3
Total	**1,367**	**1,154**	**100.0**	**100.0**

For more information about operating results under "management approach", see Note 12 to the financial statements.

Household Segment

Supervisory definition

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

Differences between management approach and supervisory definition

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

Operating results in the household segment

	For the three months ended March 31					
	2023			2022		
	NIS in millions					
	Other	Residential mortgages	Total	Other	Residential mortgages	Total
Profit and profitability						
Total interest revenues, net	875	689	1,564	362	603	965
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	175	35	210	190	36	226
Total revenues	**1,050**	**724**	**1,774**	**552**	**639**	**1,191**
Expenses with respect to credit losses	85	42	127	5	14	19
Operating and other expenses	589	245	834	551	225	776
Profit (loss) before provision for taxes	376	437	813	(4)	400	396
Provision for taxes	130	151	281	(1)	130	129
After-tax profit (loss)	246	286	532	(3)	270	267
Net profit:						
Attributable to non-controlling interests	(41)	–	(41)	(11)	–	(11)
Attributable to shareholders of the banking corporation	**205**	**286**	**491**	**(14)**	**270**	**256**
Balance sheet – key items:						
Loans to the public (end balance)	27,652	198,786	226,438	26,861	182,090	208,951
Loans to the public, net (end balance)	27,104	197,847	224,951	26,498	181,311	207,809
Deposits from the public (end balance)	127,827	–	127,827	119,992	–	119,992
Average balance of loans to the public	26,804	198,322	225,126	25,234	178,567	203,801
Average balance of deposits from the public	126,495	–	126,495	119,576	–	119,576
Average balance of risk assets	21,716	117,614	139,330	23,578	102,781	126,359
Credit spreads and deposit spreads:						
Margin from credit granting operations	273	609	882	243	578	821
Margin from activities of receiving deposits	591	–	591	117	–	117
Other	11	80	91	2	25	27
Total interest revenues, net	**875**	**689**	**1,564**	**362**	**603**	**965**

Net profit attributable to the household segment in the first quarter of 2023 amounted to NIS 491 million, compared to NIS 256 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net, partially offset by increase in expenses with respect to credit losses.

Net profit attributable to residential mortgage operations in the household segment (according to supervisory definitions) in the first quarter of 2023 amounted to NIS 286 million, compared to NIS 270 million in the corresponding period last year.

Net financing revenues from residential mortgage operations amounted to NIS 689 million, compared to NIS 603 million in the corresponding period last year. The increase was primarily due to increase in residential mortgages. Conversely, expenses with respect to credit losses amounted to NIS 42 million, compared to expenses amounting to NIS 14 million in the corresponding period last year. The increase is primarily due to increase in the group-based provision due to growth of the Bank's loan portfolio and higher risk in the market due, inter alia, to the higher interest rates.

Net profit attributable to household operations (other than residential mortgages) in the first quarter of 2023 amounted to NIS 205 million, compared to a loss of NIS 14 million in the corresponding period last year.
The increase is primarily due to increase in financing revenues, net, which amounted to NIS 875 million, compared to NIS 362 million in the corresponding period last year, primarily due to increase in deposits and to higher Bank of Israel interest rates. The increase was partially offset by expenses with respect to credit losses, which in the first quarter of 2023 amounted to NIS 85 million, compared to expenses of NIS 5 million in the corresponding period last year. The increase is primarily due to increase in the group-based provision and to higher risk in the market due, inter alia, to the higher interest rates.

The increase in operating expenses is due to increase in business volume.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Private Banking Segment

Supervisory definition

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

Differences between management approach and supervisory definition

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

Operating results in the private banking segment

	For the three months ended March 31	
	2023	**2022**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	83	23
Non-interest financing revenues	–	–
Commissions and other revenues	5	6
Total revenues	**88**	**29**
Expenses (income) with respect to credit losses	–	(1)
Operating and other expenses	5	5
Profit before provision for taxes	83	25
Reduction of provision for taxes	29	8
Net profit	**54**	**17**
Balance sheet – key items:		
Loans to the public (end balance)	136	120
Loans to the public, net (end balance)	135	120
Deposits from the public (end balance)	26,365	22,048
Average balance of loans to the public	129	116
Average balance of deposits from the public	25,697	21,783
Average balance of risk assets	57	70
Credit spreads and deposit spreads:		
Margin from credit granting operations	–	1
Margin from activities of receiving deposits	83	21
Other	–	1
Total interest revenues, net	**83**	**23**

Net profit attributable to the private banking segment in the first quarter of 2023 amounted to NIS 54 million, compared to NIS 17 million in the corresponding period last year. The increase was due to increase in interest revenues, net, primarily due to increase in business volume and to higher Bank of Israel interest rates.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Small and micro business segment

Supervisory definition

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

Differences between management approach and supervisory definition

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

Operating results in the small and micro business segment

	For the three months ended March 31	
	2023	2022
		NIS in millions
Profit and profitability		
Total interest revenues, net	637	357
Non-interest financing revenues	–	–
Commissions and other revenues	145	145
Total revenues	**782**	**502**
Expenses with respect to credit losses	80	43
Operating and other expenses	297	280
Profit before provision for taxes	405	179
Provision for taxes	140	58
After-tax profit	**265**	**121**
Net profit attributed to non-controlling interests	(4)	(1)
Net profit attributable to shareholders of the banking corporation	**261**	**120**
Balance sheet – key items:		
Loans to the public (end balance)	34,919	32,163
Loans to the public, net (end balance)	33,869	31,355
Deposits from the public (end balance)	55,463	52,510
Average balance of loans to the public	34,697	31,338
Average balance of deposits from the public	55,661	51,707
Average balance of risk assets	33,051	27,966
Credit spreads and deposit spreads:		
Margin from credit granting operations	331	308
Margin from activities of receiving deposits	278	36
Other	28	13
Total interest revenues, net	**637**	**357**

Net profit attributable to the micro and small businesses segment in the first quarter of 2023 amounted to NIS 261 million, compared to NIS 120 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net, partially offset by increase in expenses with respect to credit losses.

Financing revenues, net amounted to NIS 637 million, compared to NIS 357 million in the corresponding period last year; the increase was primarily due to increase in loans and deposits and to higher Bank of Israel interest rates. Conversely, expenses with respect to credit losses increased, amounting to NIS 80 million, compared to expenses of NIS 43 million in the corresponding period last year. The increase is primarily due to increase in the group-based provision due to growth of the Bank's loan portfolio and higher risk in the market due, inter alia, to the higher interest rates.

The increase in operating expenses was due to increase in business volume.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Medium business segment

Supervisory definition

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

Differences between management approach and supervisory definition

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

Operating results of medium business segment

	For the three months ended March 31	
	2023	**2022**
		NIS in millions
Profit and profitability		
Total interest revenues, net	149	93
Non-interest financing revenues	–	–
Commissions and other revenues	27	26
Total revenues	**176**	**119**
Revenues with respect to credit losses	(12)	(19)
Operating and other expenses	52	57
Profit before provision for taxes	136	81
Provision for taxes	47	26
Net profit	**89**	**55**
Balance sheet – key items:		
Loans to the public (end balance)	12,370	11,573
Loans to the public, net (end balance)	12,199	11,363
Deposits from the public (end balance)	12,486	14,426
Average balance of loans to the public	11,943	10,313
Average balance of deposits from the public	13,204	14,762
Average balance of risk assets	14,431	13,259
Credit spreads and deposit spreads:		
Margin from credit granting operations	87	80
Margin from activities of receiving deposits	50	10
Other	12	3
Total interest revenues, net	**149**	**93**

Net profit attributable to the medium businesses segment in the first quarter of 2023 amounted to NIS 89 million, compared to NIS 55 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net. Interest revenues, net amounted to NIS 149 million, compared to NIS 93 million in the corresponding period last year. The increase was primarily due to increase in loans.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Large business segment

Supervisory definition

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

Differences between management approach and supervisory definition

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

Operating results of large business segment

	For the three months ended March 31	
	2023	**2022**
		NIS in millions
Profit and profitability		
Total interest revenues, net	315	155
Non-interest financing revenues	–	1
Commissions and other revenues	46	56
Total revenues	**361**	**212**
Expenses with respect to credit losses	20	30
Operating and other expenses	82	88
Profit before provision for taxes	259	94
Provision for taxes	89	31
Net profit	**170**	**63**
Balance sheet – key items:		
Loans to the public (end balance)	32,128	25,885
Loans to the public, net (end balance)	31,788	25,553
Deposits from the public (end balance)	37,586	36,046
Average balance of loans to the public	32,020	23,512
Average balance of deposits from the public	39,828	35,223
Average balance of risk assets	42,482	34,754
Credit spreads and deposit spreads:		
Margin from credit granting operations	214	129
Margin from activities of receiving deposits	71	17
Other	30	9
Total interest revenues, net	**315**	**155**

Net profit attributable to the large businesses segment in the first quarter of 2023 amounted to NIS 170 million, compared to NIS 63 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net.

Financing revenues, net amounted to NIS 315 million, compared to NIS 155 million in the corresponding period last year; the increase was primarily due to increase in activity and to higher Bank of Israel interest rates.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Institutional investors segment

Supervisory definition

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

Differences between management approach and supervisory definition

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

Operating results of institutional investors segment

	For the three months ended March 31	
	2023	**2022**
		NIS in millions
Profit and profitability		
Total interest revenues, net	58	34
Non-interest financing revenues	–	–
Commissions and other revenues	14	15
Total revenues	**72**	**49**
Expenses with respect to credit losses	–	4
Operating and other expenses	41	38
Profit before provision for taxes	31	7
Provision for taxes	11	2
Net profit	**20**	**5**
Balance sheet – key items:		
Loans to the public (end balance)	2,205	2,005
Loans to the public, net (end balance)	2,202	1,999
Deposits from the public (end balance)	78,150	63,118
Average balance of loans to the public	748	2,006
Average balance of deposits from the public	67,341	59,774
Average balance of risk assets	2,277	1,476
Credit spreads and deposit spreads:		
Margin from credit granting operations	5	7
Margin from activities of receiving deposits	51	18
Other	2	9
Total interest revenues, net	**58**	**34**

Net profit attributable to the institutional investor segment in the first quarter of 2023 amounted to NIS 20 million, compared to NIS 5 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net.

Interest revenues, net amounted to NIS 58 million, compared to NIS 34 million in the corresponding period last year; the increase was primarily due to increase in deposits and to higher Bank of Israel interest rates.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Financial management segment

Supervisory definition

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

Differences between management approach and supervisory definition

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

Operating results of financial management segment

	For the three months ended March 31	
	2023	**2022**
		NIS in millions
Profit and profitability		
Total interest revenues, net	246	463
Non-interest financing revenues	87	115
Commissions and other revenues	140	473
Total revenues	**473**	**1,051**
Expenses with respect to credit losses	–	–
Operating and other expenses	101	126
Profit before provision for taxes	372	925
Provision for taxes	128	302
After-tax profit	244	623
Share of banking corporation in earnings of associated companies	1	1
Net profit before attribution to non-controlling interests	245	624
Net profit attributed to non-controlling interests	(4)	(12)
Net profit attributable to shareholders of the banking corporation	**241**	**612**
Balance sheet – key items:		
Average balance of risk assets	14,260	13,044
Credit spreads and deposit spreads:		
Margin from credit granting operations	–	–
Margin from activities of receiving deposits	–	–
Other	246	463
Total interest revenues, net	**246**	**463**

Net profit attributable to the financial management segment in the first quarter of 2023 amounted to NIS 241 million, compared to NIS 612 million in the corresponding period last year.
Financing revenues amounted to NIS 333 million, compared to NIS 578 million in the corresponding period last year.
The decrease was primarily due to decrease in early repayment commissions and effects of derivatives and realization of bonds.

Commissions and other revenues amounted to NIS 140 million, compared to NIS 473 million in the corresponding period last year. The decrease was primarily due to capital gain from realized real estate properties in the first quarter of 2022, amounting to NIS 371 million.
See also analysis of developments in financing revenues, under chapter "Material developments in revenues, expenses and other comprehensive income".

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Overseas activity

Supervisory definition

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

Differences between management approach and supervisory definition

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

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

Operating results overseas

	For the three months ended March 31	
	2023	2022
		NIS in millions
Profit and profitability		
Total interest revenues, net	94	54
Non-interest financing revenues	–	1
Commissions and other revenues	6	5
Total revenues	**100**	**60**
Expenses with respect to credit losses	12	3
Operating and other expenses	25	18
Profit before provision for taxes	63	39
Provision for taxes	22	13
Net profit	**41**	**26**
Balance sheet – key items:		
Loans to the public (end balance)	7,220	4,760
Loans to the public, net (end balance)	7,175	4,718
Deposits from the public (end balance)	10,592	4,513
Average balance of loans to the public	6,747	4,373
Average balance of deposits from the public	7,486	4,495
Average balance of risk assets	8,675	5,578
Credit spreads and deposit spreads:		
Margin from credit granting operations	59	39
Margin from activities of receiving deposits	4	2
Other	31	13
Total interest revenues, net	**94**	**54**

Net profit attributable to the overseas operations segment in the first quarter of 2023 amounted to NIS 41 million, compared to NIS 26 million in the corresponding period last year.

Interest revenues, net amounted to NIS 94 million, compared to NIS 54 million in the corresponding period last year; the increase was primarily due to increase in loans and to higher interest rates in the USA.

Conversely, expenses with respect to credit losses increased, amounting to NIS 12 million, compared to NIS 3 million in the corresponding period last year. The increase is primarily due to increase in the group-based provision.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Principal investee companies

Contribution of investee companies to net operating profit in the first quarter of 2023 amounted to NIS 105 million, compared to NIS 255 million in the corresponding period last year.

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

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

The Group's share of Bank Yahav's net profit in the first quarter of 2023 amounted to NIS 49 million, compared to NIS 24 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2023 was 17.6% on annualized basis, compared to return of 10.0% in the corresponding period last year.

Bank Yahav's balance sheet total as of March 31, 2023 amounted to NIS 35,698 million, compared to NIS 35,020 million as of December 31, 2022 – an increase by NIS 678 million, or 1.9%. Net loans to the public as of March 31, 2023 amounted to NIS 11,969 million, compared to NIS 11,912 million as of December 31, 2022 – an increase by NIS 57 million, or 0.5%. Net deposits from the public as of March 31, 2023 amounted to NIS 31,640 million, compared to NIS 31,103 million as of December 31, 2022 – an increase by NIS 537 million, or 1.7%.

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

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

Tefahot Insurance agency is an insurance agency wholly-owned by the Bank, engaged in sale of life insurance and property insurance policies to mortgage customers of the Bank. In the first quarter of 2023, net profit of Tefahot Insurance agency amounted to NIS 24 million, compared to NIS 18 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2023 was 6.6%, compared to 5.6% in the corresponding period last year.

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

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

Net profit of Leasing in the first quarter of 2023 amounted to NIS 19 million, compared to NIS 10 million in the corresponding period last year. Net profit return on equity in the first quarter of 2023 was 8.7%, compared to 5.2% in the corresponding period last year.

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

INVEST is an investment company wholly owned by the Bank, engaged in investment of funds and/or sale of interest in corporations, development, brokerage and advice on investments as well as operation and management of corporations. Net loss of INVEST in the first quarter of 2023 amounted to NIS 6.3 million, compared to NIS 0.3 million in the corresponding period last year.

Other investee companies operating in Israel

Other investee companies operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in the first quarter of 2023 NIS 6 million – compared to NIS 3 million in the corresponding period last year.

Investments in shares

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

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

Bank investments in shares as of March 31, 2023 amounted to NIS 786 million, compared to NIS 834 million and NIS 779 million as of March 31, 2022 and as of December 31, 2022, respectively. Bank net loss from investment in shares in the first quarter of 2023 amounted to NIS 0.4 million, compared to gain amounting to NIS 115 million in the corresponding period last year.

For more information about investments in shares not held for trading, see Note 5 to the financial statements.

Risks overview

This chapter provides a concise overview and analysis of developments of key risks to which the Bank is exposed. This chapter should be read, as needed, in conjunction with the chapter "Risks overview" in the 2022 audited annual financial statements. A detailed Risks Management Report which includes disclosure requirements of Basel Pillar 3 and additional information about risks, provided based on recommendations by the Financial Stability Board (FSB) is provided on the Bank website.

Risk development and management

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

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

In the first quarter of 2023, the Bank's risk assessment and risk profile remained unchanged from end of 2022. Uncertainty continues with regard to global geo-political effects, the state of the global and local economies and changes to the macro-economic environment. Since early 2023, there has been uncertainty in view of Government plans to promote changes to the judicial system and the public disagreement with regard to this move. At this time, it is not possible to anticipate the developments and their impact on the Israeli economy and on the Bank.

Macro-economic developments

Uncertainty continues with regard to continued geo-political tension globally, and its impact on the global and local macro-economic environment. In the first quarter of 2023, higher inflation and interest rate environment continued, with instability in the global and local economic environment, resulting, *inter alia*, in the collapse of multiple banks in Europe and in the USA with continuing concern about recession in developed economies. Therefore, the Bank is closely monitoring exposures to financial institutions. Note that Bank exposure to the impacted financial institutions is negligible.

There is concern that continued higher interest rates and inflation would slow down the economy, increase unemployment and reduce trade – which would be reflected in shrinking import and export. The higher interest rate environment and more costly loans, along with price increases in the market, affect public consumption. The change in Bank of Israel interest rates and in inflation increases monthly payments of mortgage borrowers and the repayment ratio to total borrower income. Higher cost of financing in the real estate sector may increase credit risk in projects under way.

Risks description

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

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

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

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

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

Cyber threats towards local and global financial institutions continues to evolve and increase. Attack incidents show increased sophistication and motivation, with a significant increase in the number of cyber events and in the extent of losses due to such events.

Technological risk is a significant risk to the banking system, affected by accelerated evolution in technology and digital domains, in order to provide response to changing customer needs. The legacy core systems in the banking system, along with multiple banking regulatory requirements within short timeframes increase the potential damage that may arise from technology risk that is material for proper operation of the Bank.

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

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

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

Bank management is committed to regular management of material risks to which the Bank is exposed and to implementation of principles stipulated by the Bank's Board of Directors for addressing such risks.

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

Description of risk appetite and risks management

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

Risk tolerance is a specific setting of risk levels for all risks to which the Bank is exposed. Risk levels are determined by a range of qualitative and quantitative benchmarks, in support of achieving the business goals, while keeping the Bank within the overall limits of the specified risk appetite and subject to strict regulatory restrictions. These risk restrictions, on aggregate, reflect the risk appetite and the overall risk level which the Bank Group is willing to assume. Efficient, comprehensive risk management is a major pillar for ensuring bank stability over time. Risks management and control processes at the Bank Group are designed to identify, manage, monitor, quantify, avoid and mitigate all material risks associated with Bank operations and to support achievement of the Bank's business objectives. Business activity in diverse financial products and instruments exposes the Bank Group to various financial and non-financial risks, whose materialization has potential to impact its financial results or image. The Bank is exposed to financial risk, such as: Credit risk, concentration risk, liquidity risk and market and interest risk. As well as to non-financial risk, such as: Reputational risk, compliance and regulatory risk, operational risk including, inter alia: IT risk, information and cyber security risk, legal risk and other risk, such as: climate and environmental risk, strategic business risk etc.

Use of stress scenarios in risk management

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

The primary uses of stress scenarios and guidelines for setting them are specified in the policy document "General framework policy for risk management and control". The Bank extensively uses the results of stress scenarios to estimate the potential impact of various risks to the Bank's business and financial targets, as part of the capital planning process and the ICAAP document.

ICAAP process (Internal Capital Adequacy Assessment Process)

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

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

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

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

The annual internal assessment process at the Bank to review capital adequacy indicates that the Bank has sufficient capital to face the various risks associated with Bank operations, both in the normal course of business and under stress scenarios. Over the entire planning period, the Bank has available total capital higher than the total capital required by ICAAP, even after applying stress and stressed scenarios. Moreover, the Tier I capital ratio under the stressed scenario, for each year of the scenario period, does not drop below 6.5%. The 2022 ICAAP document was extensively discussed and approved by Bank management, Board committees (Risks Management Committee and Audit Committee) and by the Board of Directors plenum. The document was submitted to the Bank of Israel in late 2022 and includes qualitative and quantitative references to all risk aspects at the Bank.

System-wide scenario

In line with customary world-wide practice, the Supervisor of Banks annually conducts a uniform macro-economic stress scenario for the banking system, designed to test systemic and individual financial stability in a different macro-economic environment and risk concentrations under an extreme scenario. In December 2022, the Supervisor of Banks published a uniform macro-economic stress scenario, originating from a global shock due to disruption to supply chains and the war in the Ukraine, resulting in world-wide shortage of basic raw materials and causing sharply higher inflation and economic slow-down. In response to the higher prices, central banks in Israel and around the world adopt a restrictive monetary policy and sharply raise interest rates. This scenario includes continued slow-down in local and global activity, along with sharply higher unemployment, impact to private consumption and lower prices of shares and bonds. These, along with curbing the inflation, cause the central banks to change direction and to sharply lower interest rates, in an attempt to revive economic activity and to prevent an even worse recession. Towards the end of the scenario, economic activity in Israel and world-wide recovers, inflation returns to its normal track and accordingly, the Bank of Israel starts to gradually raise interest rates.

Results of the stress scenario, showing the expected evolution of the Bank's balance sheet and capital ratios were provided to the Bank of Israel in March 2023. The Bank's results indicate stability over the entire scenario period, while maintaining appropriate regulatory capital and leverage ratios and beyond.

Risk factor severity

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

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

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

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

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

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

In the first quarter of 2023, the Bank's risk assessment and risk profile remained unchanged from end of 2022. Uncertainty continues with regard to global geo-political effects, the state of the global and local economies and changes to the macro-economic environment. The overall effect of credit risk and risk associated with quality of borrowers and collateral remained Medium. Despite the significant decrease in impact of the Corona Virus crisis on business and economic activity of the Bank, the risk assessment remained unchanged and is slightly higher than previously, due to the continued Russia-Ukraine war and changes to the local and global macro-economic environment that increase market uncertainty. Interest rates are high and inflation remains high. These changes may affect Bank operations, increase borrowing costs and affect credit risk management.

Risk level in the mortgage portfolio remained Low-Medium, after increasing in the fourth quarter of 2022 from Low, due to uncertainty with regard to potential future impact of higher interest rates and inflation on borrowers' repayment capacity, due to how material the mortgage portfolio is for the Bank, and even though at this time, the risk measures do not point to material deterioration or material change in the risk level. The Bank constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite, and should the potential future risk decrease, the risk level in the residential mortgage portfolio would decrease back to Low.

The overall risk level of market and interest risk remained Low-Medium. Interest risk remained Medium, after increasing in the previous quarter from Low-Medium due to the higher interest rates, high uncertainty and potential impact for borrower and depositor behavior. Due to continued uncertainty with regard to potential developments in changes in the macro-economic environment in Israel and world-wide and continuation of the Russia-Ukraine war, and their impact on the Bank, close monitoring of potential effects of such changes on Bank activity and risk assessment continues, even to a higher degree.

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

The Bank assessment is that these operations have no material impact on the Bank's overall credit risk. The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank remained relatively low at 15.4% (compared to 15.3% at end of 2022).

Liquidity risk remained low-medium. Since early March 2022, the alert level at the Bank was raised to Yellow, due to continued market volatility and continued uncertainty with regard to macro-economic impact. In practice, no events and/or indications were observed which would indicate realization of a liquidity event. In the first quarter of 2023, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (consolidated) for the first quarter of 2023 was 126%. The net stable funding ratio (on consolidated basis) as of March 31, 2023 was 113% and there were no deviations from the risk appetite limitations.

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

In the first quarter of 2023, information security and cyber risk remained Medium. In this quarter, a small number of fraud attempts against customers (through phishing attacks) were identified, in which their account credentials were stolen in order to conduct un-authorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in customer accounts. The Bank continues to bolster and improve its defensive measures in conformity with expansion of threats and challenging needs which the Bank is required to face. Note that despite the increase in cyber risk world-wide and in Israel, due inter alia to increased use of cloud environments, increased remote working and more sophisticated attacks, primarily ransom attacks – the actions taken by the Bank in recent years have maintained risk at the Bank unchanged.

In April, during OpJerusalem day, extensive DDoS attacks were staged against most banking websites, including against the Bank. Throughout this attack, the Bank app and transaction website operated normally, with no impact to the Bank's business activity.

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

In the first quarter of 2023, reputational risk remained Low. The Bank constantly monitors various benchmarks and indicators with regard to the Bank's reputation, and has yet to identify any material impact on reputational risk, despite increased activity of competitors in the market and continued regulatory involvement in promoting competition, media coverage of interest rate increases and its various effects on the mortgage and deposit market, and impact of new regulatory measures.

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

Credit risk

Risk description and development thereof

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

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

The overall effect of commercial credit risk remained unchanged at Medium, similar to the risk level at end of 2022 and in previous quarters.

The overall level of credit risk and risk associated with borrower quality and collateral remained Medium. Despite the significant decrease in impact of the Corona Virus crisis on business and economic activity of the Bank, the risk assessment remained unchanged and is slightly higher than previously, due to the continued Russia-Ukraine war and changes to the local and global macro-economic environment that increase market uncertainty. Interest rates are high and inflation remains high. These changes may affect Bank operations, increase borrowing costs and affect credit risk management.

Risk level in the mortgage portfolio remained Low-Medium, after increasing in the fourth quarter of 2022 from Low, due to uncertainty with regard to potential future impact of higher interest rates and inflation on borrowers' repayment capacity, due to how material the mortgage portfolio is for the Bank, and even though at this time, the risk measures do not point to material deterioration or material change in the risk level. The Bank constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite, and should the potential future risk decrease, the risk level in the residential mortgage portfolio would decrease back to Low.

Analysis of developments in credit quality and problematic credit risk

Significant exposure to groups of borrowers

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

As of March 31, 2023, the Bank had no borrower group which meets the aforementioned criteria.

For more information about significant exposures to borrower groups, see chapter "Credit Risk" in the Report of the 2022 Report of the Board of Directors and Management.

Major borrowers

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

Borrower no.	Economic sector	On-balance sheet credit risk(1)	Off-balance sheet credit risk(1)	Total credit risk(1)
1.	Financial services	1,202	491	1,693
2.	Civil Engineering Works	291	934	1,225
3.	Construction and real estate	424	570	994
4.	Financial services	48	936	984
5.	Power	553	319	872
6.	Construction and real estate	382	442	824

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

Leveraged financing

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

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

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

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

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

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

Credit for equity transactions (NIS in millions):

	March 31, 2023				March 31, 2022				December 31, 2022			
Economic sector of acquired company	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Construction and real estate	355	1	356	–	336	1	337	–	353	2	355	–
Mining and excavation	526	–	526	–	–	184	184	–	523	–	523	–
Water	170	18	188	–	–	–	–	–	168	18	186	–
Financial services	–	–	–	–	–	–	–	–	260	–	260	–
Total	**1,051**	**19**	**1,070**	**–**	**336**	**185**	**521**	**–**	**1,304**	**20**	**1,324**	**–**

Credit to leveraged companies (NIS in millions):

	March 31, 2023				March 31, 2022				December 31, 2022			
Economic sector of borrower	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Industry and production	227	35	262	–	–	–	–	–	222	40	262	–
Construction and real estate	753	175	928	–	26	–	26	–	394	123	517	–
Power	370	198	568	–	–	–	–	–	376	146	522	–
Commerce	155	4	159		133	10	143	–	142	4	146	–
Transport and storage	486	102	588	25	118	31	149	46	564	78	642	31
Public and community services	–	–	–	–	164	8	172	–	–	–	–	–
Total	**1,991**	**514**	**2,505**	**25**	**441**	**49**	**490**	**46**	**1,698**	**391**	**2,089**	**31**

Developments in problematic credit risk

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

	Total credit risk		
	March 31, 2023	March 31, 2022	December 31, 2022
Problematic credit risk:			
Non-accruing credit risk	2,727	2,622	2,612
Accruing problematic credit risk	1,727	1,067	1,549
Total problematic credit risk	**4,454**	**3,689**	**4,161**

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

	March 31, 2023	March 31, 2022	December 31, 2022
Non-accruing loans to the public as percentage of total loans to the public	0.86	0.91	0.83
Non-accruing loans to the public as percentage of total non-residential mortgages	1.03	1.10	1.10
Non-accruing loans to the public as percentage of total residential mortgages	0.76	0.81	0.68
Ratio of problematic loans to the public to total non-residential mortgages	2.32	1.91	2.31
Ratio of residential mortgages in arrears 90 days or longer to total loans to the public	0.39	0.44	0.35
Ratio of problematic credit risk to total credit risk with respect to the public	1.10	0.98	1.06

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

Analysis of change to non-accruing debts

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

	For the three months ended March 31, 2023				For the three months ended March 31, 2022				For the year ended December 31, 2022			
Movement in non-accruing loans to the public	Com-mercial	Resi-dential	Indivi-dual	Total	Com-mercial	[(1)]Resi-dential	Indivi-dual	Total	Com-mercial	Resi-dential	Indivi-dual	Total
Non-accruing loans to the public – balance at start of period	1,193	1,329	55	2,577	1,193	–	56	1,249	1,193	–	56	1,249
Effect of initial application of rules for identification and classification of problematic debts	–	–	–	–	–	1,174	–	1,174	–	1,174	–	1,174
Loans classified as non-accruing during the period	176	397	7	580	62	298	6	366	481	482	63	1,026
Loans resuming accrual of interest revenues during the period	(24)	(220)	(1)	(245)	(103)	–	(2)	(105)	(68)	(319)	(46)	(433)
Loans subject to accounting write-off	(30)	–	(3)	(33)	(20)	–	–	(20)	(164)	–	(8)	(172)
Loans repaid	(169)	–	(5)	(174)	(52)	–	(1)	(53)	(249)	(8)	(10)	(267)
Non-accruing debt balance at end of period	**1,146**	**1,506**	**53**	**2,705**	**1,080**	**1,472**	**59**	**2,611**	**1,193**	**1,329**	**55**	**2,577**

	For the three months ended March 31, 2023				For the three months ended March 31, 2022				For the year ended December 31, 2022			
Of which: Movement in non-accruing credit subject to restructuring	Com-mercial	Resi-dential	Indivi-dual	Total	Com-mercial	[(1)]Resi-dential	Indivi-dual	Total	Com-mercial	Resi-dential	Indivi-dual	Total
Non-accruing credit balance subject to re-structuring – at start of period	173	36	34	243	367	–	31	398	367	–	31	398
Effect of initial application of rules for identification and classification of problematic debts	–	–	–	–	–	25	–	25	–	25	–	25
Re-structuring carried out during the period	37	1	8	46	62	2	50	114	94	11	24	129
Loans resuming accrual of interest revenues	(18)	–	(3)	(21)	(27)	–	(37)	(64)	(116)	–	(8)	(124)
Credit under restructuring written off	(4)	–	(1)	(5)	(2)	–	(2)	(4)	(14)	–	(3)	(17)
Credit under restructuring repaid	(14)	–	(3)	(17)	(145)	–	(10)	(155)	(65)	–	(9)	(74)
Other changes	–	–	–	–	(95)	–	6	(89)	(93)	–	(1)	(94)
Non-accruing credit balance subject to re-structuring – at end of period	**174**	**37**	**35**	**246**	**160**	**27**	**38**	**225**	**173**	**36**	**34**	**243**

(1) Reclassified

For more information about problematic credit risk, see Notes 6 and 13 to the financial statements.

Analysis of provision for credit losses

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

	For the three months ended March 31, 2023					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Balance of provision for credit losses at start of period	1,690	902	512	3,104	1	3,105
Expenses with respect to credit losses	100	42	85	227	–	227
Net accounting write-offs	(24)	–	(29)	(53)	–	(53)
Balance of provision for credit losses at end of period	**1,766**	**944**	**568**	**3,278**	**1**	**3,279**

	For the three months ended March 31, 2022					
Balance of provision for credit losses at start of period	1,256	804	254	2,314	1	2,315
Opening balance adjustment for effect of initial application of public reporting directives with regard to expected credit losses	275	(32)	149	392	–	392
Expenses with respect to credit losses	51	14	14	79	–	79
Net accounting write-offs	(8)	–	(12)	(20)	–	(20)
Other[(1)]	(23)	1	10	(12)	–	(12)
Balance of provision for credit losses at end of period	**1,551**	**787**	**415**	**2,753**	**1**	**2,754**

(1) Movement in provision for credit losses in subsidiary, primarily attributed to cost of acquisition upon initial consolidation, and is therefore not included on the consolidated balance sheet.

For more information about provision for credit losses see Notes 6 and 13 to the financial statements.

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

	March 31, 2023	March 31, 2022	December 31, 2022
Ratio of provision for credit losses to total loans to the public	1.04	0.96	1.00
Ratio of provision for credit losses to total credit risk with respect to the public	0.82	0.73	0.79
	Three months[(1)]		
	2023	2022	2022
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.29	0.11	0.18
Ratio of net write-offs to average balance of loans to the public, gross	0.07	0.03	0.09
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.29	0.11	0.18
Of which: With respect to commercial loans other than residential mortgages	0.66	0.26	0.41
Of which: with respect to residential mortgages	0.09	0.03	0.05
Ratio of net write-offs to average balance of loans to the public, net	0.07	0.03	0.09

(1) Annualized.

Loans bearing variable interest

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

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

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

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

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

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

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

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

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

		As of March 31	As of December 31
	2023	**2022**	**2022**
Debts			
Current account balances	1,950	1,964	2,106
Utilized credit card balances	4,717	4,571	4,648
Auto loans – adjustable interest	2,506	2,250	2,518
Auto loans – fixed interest	2,958	2,955	2,613
Other loans and credit – variable interest	13,664	13,215	13,801
Other loans and credit – fixed interest	725	271	849
Total debt (on-balance sheet credit)	**26,520**	**25,226**	**26,535**
Un-utilized facilities, guarantees and other commitments			
Current accounts – un-utilized facilities	5,381	5,153	5,200
Credit cards – un-utilized facilities	8,997	8,418	8,960
Guarantees	305	279	312
Other liabilities	25	11	36
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**14,708**	**13,861**	**14,508**
Total credit risk to individuals	**41,228**	**39,087**	**41,043**
Of which:			
Bullet / balloon loans[3]	635	382	576
Financial asset portfolio and other collateral against credit risk[4]			
Financial assets portfolio:			
Deposits	4,252	4,140	4,250
Securities	223	315	275
Other monetary assets	202	245	206
Other collateral[5]	2,975	3,569	3,072
Total financial assets portfolio and other collateral against credit risk	**7,652**	**8,269**	**7,803**

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

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

Loan ceiling and credit risk (NIS in thousands)		As of March 31, 2023 Number of Borrowers	Total credit risk	As of March 31, 2022 Number of Borrowers	Total credit risk	As of December 31, 2022 Number of Borrowers	Total credit risk
	Up to 10	253,431	813	254,726	1,353	262,086	813
Above 10	Up to 20	112,912	1,667	112,239	1,686	112,216	1,655
Above 20	Up to 40	149,868	4,402	149,118	4,359	149,977	4,398
Above 40	Up to 80	160,531	9,205	157,797	9,016	160,636	9,207
Above 80	Up to 150	102,563	11,057	99,389	10,665	103,027	11,117
Above 150	Up to 300	53,430	11,010	47,699	9,695	52,370	10,761
Above 300		7,449	3,074	5,280	2,313	7,176	3,092
Total		**840,184**	**41,228**	**826,248**	**39,087**	**847,488**	**41,043**

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

Composition of on-balance sheet credit by regular income(1) in account:

Income	As of March 31, 2023 NIS in millions	in %	As of March 31, 2022 NIS in millions	in %	As of December 31, 2022 NIS in millions	in %
Accounts with no fixed income for the account(2)	6,812	25.7	6,351	25.2	6,677	25.2
Less than NIS 10 thousand	4,052	15.3	4,333	17.2	4,372	16.5
Between NIS 10 thousand and NIS 20 thousand	7,976	30.1	7,676	30.4	8,034	30.3
Over NIS 20 thousand	7,680	28.9	6,866	27.2	7,452	28.0
Total	**26,520**	**100**	**25,226**	**100**	**26,535**	**100**

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

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

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

Term to maturity	As of March 31, 2023 NIS in millions	in %	As of March 31, 2022 NIS in millions	in %	As of December 31, 2022 NIS in millions	in %
Up to 1 year	4,119	20.7	3,902	20.9	4,246	21.5
Over 1 year to 3 years	6,104	30.7	6,034	32.3	6,234	31.5
Over 3 years to 5 years	4,877	24.6	4,483	24	4,717	23.8
Over 5 years to 7 years	2,135	10.8	2,158	11.5	2,098	10.6
Over 7 years(2)	2,618	13.2	2,114	11.3	2,486	12.6
Total	**19,853**	**100**	**18,691**	**100**	**19,781**	**100**

(1) Excluding checking account and credit cards.

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

Below is information about problematic credit risk for individuals before provision for credit losses (NIS in millions):

	As of March 31, 2023			As of March 31, 2022			As of December 31, 2022		
	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Of which:	On balance sheet	Off balance sheet	Of which:	On balance sheet	Off balance sheet	Of which:
Balance of problematic credit risk	216	7	223	200	8	208	222	6	228
Problematic credit risk rate(2)	0.81%	0.05%	0.54%	0.79%	0.06%	0.53%	0.84%	0.04%	0.56%

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

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

	Three months		2022
	2023	2022	
Expense with respect to credit losses as percentage of total loans to the public to individuals	1.28%	0.22%	0.38%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 5.2% compared to March 31, 2022, (unchanged from December 31, 2022).
- Composition of debts as of March 31, 2023:
  Checking accounts - 7.3%
  Credit cards - 17.8%
  Auto loans - 20.6%
  Other loans and credit - 54.3%
- Of all debts (on-balance sheet credit) as of March 31, 2023, 28.8% is secured by financial assets and other collateral in the customer's account (compared to 32.8% as of March 31, 2022 and 29.4% as of December 31, 2022).

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

Credit risk in construction and real estate economic sector in Israel

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

In the first quarter of 2023, the slow-down in demand for housing in Israel, which started in the second quarter of 2022, continued. New residential units sold in December 2022 to February 2023 (net of seasonal effects) was 2.7% lower than in the previous three months, and review of trend data shows that since September 2021, sales decreased by 4.2% per month. The change in sales trend is in view of higher interest rates (from April 2022 to April 2023, the Bank of Israel raised its interest rate by 4.4 percentage points) and decrease in apartment buying by investors, due to the higher purchase tax. Moreover, in September 2022 to February 2023, prices of new apartments decreased by 1.9% on aggregate. Total housing construction starts in 2022 were 67 thousand residential units, an increase by 5.3% compared to the corresponding period in the previous year. However, housing construction starts have decreased consistently from the record level in the first quarter of 2022. Residential housing construction completions increased by 11%, at 52 thousand residential units.

In recent months, indications of a slow-down in the high-tech sector appeared; This sector is a major user of office space, and this resulted in a shift to decrease in rent in this segment, which may further decrease as the slow-down becomes more pronounced. Furthermore, in the logistics center segment and in view of many companies entering the eCommerce market, accelerated trend of online shopping and growth in private consumption, there is increased demand for logistics centers.

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

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

In the first quarter of 2023, activity in the construction and real estate sector was more moderate, primarily in housing bonds and performance guarantees, as part of the trend of decrease in demand in this sector reflected, inter alia, in decrease in sales and new transaction volume. Consequently, the total credit exposure in the construction and real estate sectors increased by 3.1% in the first quarter of 2023.

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of March 31, 2023, as presented below (Credit Risk by Economic Sector) is 15.4%. Note that according to Proper Conduct of Banking Business Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 12.3% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of housing bonds for which the Bank has obtained an insurance policy). The Bank reviews in each quarter the calculation of the group-based provision for credit losses in this sector, and adjusts this provision so as to account, inter alia, for growth in the loan portfolio and the underwriting conditions.

For more information about addition of loans designated for purchase of land for development or construction with LTV in excess of 80% to the list of debt with a 150% risk weighting, see Note 10 to the financial statements.

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

								March 31, 2023
	Credit risk to the public[1]							
	Credit risk				Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[2]	Off balance sheet[3]		Of which:	Non-accruing	Other problematic[4]	On-balance sheet credit risk	Off-balance sheet credit risk
		Guarantees to home buyers[5]	Facilities and other commitments					
Secured by real estate:								
Housing	20,657	5,718	11,625	38,000	30	339	109	26
Commercial and industrial	8,595	175	2,013	10,783	118	287	136	4
Total secured by real estate	**29,252**	**5,893**	**13,638**	**48,783**	**148**	**626**	**245**	**30**
Not secured by real estate	6,084	6	5,530	11,620	114	89	171	29
Total for construction and real estate economic sector in Israel	**35,336**	**5,899**	**19,168**	**60,403**	**262**	**715**	**416**	**59**
Of which: Designated for project assistance	19,904	5,010	11,206	36,120	22	381	93	27

								March 31, 2022
								Credit risk to the public[1]
	Credit risk				Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[2]	Off balance sheet[3]		Of which:	Non-accruing	Other problematic[4]	On-balance sheet credit risk	Off-balance sheet credit risk
		Guarantees to home buyers[5]	Facilities and other commitments					
Secured by real estate:								
Housing	15,866	5,845	12,740	34,451	57	40	18	29
Commercial and industrial	7,042	102	2,124	9,268	64	65	117	34
Total secured by real estate	**22,908**	**5,947**	**14,864**	**43,719**	**121**	**105**	**135**	**63**
Not secured by real estate	5,706	211	4,135	10,052	134	86	99	30
Total for construction and real estate economic sector in Israel	**28,614**	**6,158**	**18,999**	**53,771**	**255**	**191**	**234**	**93**
Of which: Designated for project assistance	15,248	5,918	11,571	32,737	33	30	25	32

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

(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, which are mostly backed by insurance purchased from international reinsurers.

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

	March 31, 2023			March 31, 2022			December 31, 2022		
	Credit risk[1]			Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Of which:	On balance sheet	Off balance sheet	Of which:	On balance sheet	Off balance sheet	Of which:
Secured by real estate									
Real estate yet to be completely constructed:									
Raw land	16,201	712	16,913	11,221	759	11,980	15,710	703	16,413
Real estate under construction	5,980	17,001	22,981	5,477	18,464	23,941	5,791	16,833	22,624
Real estate completely constructed	7,071	1,818	8,889	6,210	1,588	7,798	6,901	1,881	8,782
Total credit secured by real estate in Israel	**29,252**	**19,531**	**48,783**	**22,908**	**20,811**	**43,719**	**28,402**	**19,417**	**47,819**
Not secured by real estate	6,084	5,536	11,620	5,706	4,346	10,052	5,352	5,378	10,730
Total credit risk for construction and real estate	**35,336**	**25,067**	**60,403**	**28,614**	**25,157**	**53,771**	**33,754**	**24,795**	**58,549**

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

	March 31 2023	December 31 2022	Change
	Credit risk to the public[1]		
Credit risk at performing credit rating:			
Total non-problematic credit risk	57,828	56,077	3.1%
Credit risk other than at performing credit rating:			
Problematic accruing	715	526	35.9%
Problematic non-accruing	262	265	(1.1%)
Non-problematic	1,598	1,681	(4.9%)
Total credit risk other than at performing credit rating	**2,575**	**2,472**	**4.2%**
Total credit risk for construction and real estate	**60,403**	**58,549**	**3.2%**

(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 by economic sector

As of March 31, 2023

Reported amounts (NIS in millions)

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
		Of which:							Credit losses[4]		
	Total	Credit performance rating[4]	Credit in good standing other than at performing credit rating	Problematic[5]	Total	Debts[2]	Problematic[5]	Non-accruing	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,207	1,181	4	22	1,207	933	22	14	–	–	20
Mining and excavation	1,035	1,024	–	11	879	301	7	1	–	–	7
Industry and production	16,155	15,337	225	593	15,726	10,036	583	275	(2)	3	323
Of which: Diamonds	1,779	1,621	13	145	1,779	1,199	145	63	1	(1)	43
Construction and real estate – construction[6]	51,607	49,589	1,357	661	51,520	27,098	661	178	8	3	336
Construction and real estate – real estate operations	8,796	8,239	241	316	8,275	7,641	316	84	28	3	139
Electricity and water delivery	9,319	9,253	62	4	9,054	5,651	4	2	1	1	75
Commerce	15,710	14,787	537	386	15,576	11,780	384	190	19	(3)	314
Hotels, dining and food services	1,979	1,774	119	86	1,967	1,525	86	46	4	3	87
Transport and storage	3,621	2,851	665	105	3,581	2,992	105	63	9	3	90
Information and communications	2,205	2,139	29	37	2,126	1,391	37	19	1	5	25
Financial services	19,565	19,511	28	26	14,546	8,408	26	21	(2)	–	39
Other business services	7,011	6,682	95	234	7,003	4,766	234	101	3	3	161
Public and community services	3,280	2,865	228	187	3,252	2,655	187	140	24	3	111
Total commercial	**141,490**	**135,232**	**3,590**	**2,668**	**134,712**	**85,177**	**2,652**	**1,134**	**93**	**24**	**1,727**
Private individuals – residential mortgages	210,505	206,728	2,271	1,506	210,505	198,774	1,506	1,506	42	–	944
Private individuals – other	41,231	40,652	356	223	41,228	26,520	223	53	85	29	568
Total public – activity in Israel	**393,226**	**382,612**	**6,217**	**4,397**	**386,445**	**310,471**	**4,381**	**2,693**	**220**	**53**	**3,239**
Banks in Israel	2,800	2,800	–	–	1,198	858	–	–	–	–	–
Government of Israel	15,018	15,018	–	–	60	60	–	–	–	–	–
Total activity in Israel	**411,044**	**400,430**	**6,217**	**4,397**	**387,703**	**311,389**	**4,381**	**2,693**	**220**	**53**	**3,239**
Borrower activity overseas											
Total public – activity overseas	7,703	7,064	582	57	7,559	4,945	51	12	7	–	39
Overseas banks	18,877	18,877	–	–	18,606	18,586	–	–	–	–	–
Overseas governments	1,970	1,969	–	1	471	471	1	1	–	–	1
Total activity overseas	**28,550**	**27,910**	**582**	**58**	**26,636**	**24,002**	**52**	**13**	**7**	**–**	**40**
Total	**439,594**	**428,340**	**6,799**	**4,455**	**414,339**	**335,391**	**4,433**	**2,706**	**227**	**53**	**3,279**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 335,391; bonds – 18,755; securities borrowed or acquired in conjunction with resale agreements – 15; (on- and off-balance sheet) credit risk with respect to derivatives – 6,485; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 78,948.

(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 1,320 million and off-balance sheet credit risk amounting to NIS 1,778 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 by economic sector – Continued

As of March 31, 2022

Reported amounts (NIS in millions)

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
		Of which:							Credit losses[3]		
	Total	Credit performance rating[4]	Credit in good standing other than at performing credit rating	Problematic[5]	Total	Debts[2]	Problematic[5]	Non-accruing	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,178	1,152	8	18	1,178	912	18	11	2	1	17
Mining and excavation	785	777	–	8	662	172	8	–	4	–	9
Industry and production	14,716	14,029	215	472	14,516	8,998	472	250	(6)	14	344
Of which: Diamonds	1,590	1,411	32	147	1,590	1,035	147	76	1	–	28
Construction and real estate – construction[6]	46,327	45,071	906	350	46,230	22,097	350	207	(16)	(18)	236
Construction and real estate – real estate operations	7,444	7,215	133	96	7,207	6,219	96	48	(7)	–	91
Electricity and water delivery	7,602	7,544	34	24	7,323	4,451	24	12	16	13	67
Commerce	15,209	14,609	310	290	15,075	11,239	290	150	(18)	8	261
Hotels, dining and food services	2,095	1,807	134	154	2,095	1,598	154	59	10	1	92
Transport and storage	2,925	2,205	528	192	2,911	2,137	192	151	12	(26)	111
Information and communications	1,742	1,673	15	54	1,686	1,090	54	40	9	–	34
Financial services	17,120	17,061	28	31	13,996	8,517	31	9	4	–	34
Other business services	6,613	6,221	210	182	6,592	4,537	182	125	20	16	160
Public and community services	3,363	3,013	315	35	3,351	2,673	35	23	21	(1)	61
Total commercial	**127,119**	**122,377**	**2,836**	**1,906**	**122,822**	**74,640**	**1,906**	**1,085**	**51**	**8**	**1,517**
Private individuals – residential mortgages	203,027	199,646	1,909	1,472	203,027	182,073	1,472	1,472	14	–	786
Private individuals – other	39,148	38,556	384	208	39,087	25,226	208	59	14	12	415
Total public – activity in Israel	**369,294**	**360,579**	**5,129**	**3,586**	**364,936**	**281,939**	**3,586**	**2,616**	**79**	**20**	**2,718**
Banks in Israel	3,842	3,842	–	–	2,628	2,393	–	–	–	–	–
Government of Israel	11,256	11,256	–	–	77	77	–	–	–	–	–
Total activity in Israel	**384,392**	**375,677**	**5,129**	**3,586**	**367,641**	**284,409**	**3,586**	**2,616**	**79**	**20**	**2,718**
Borrower activity overseas											
Total public – activity overseas	5,688	5,102	483	103	5,312	3,518	103	6	–	–	35
Overseas banks	7,676	7,676	–	–	6,087	6,067	–	–	–	–	1
Overseas governments	4,061	4,060	–	1	380	380	1	1	–	–	–
Total activity overseas	**17,425**	**16,838**	**483**	**104**	**11,779**	**9,965**	**104**	**7**		**–**	**36**
Total	**401,817**	**392,515**	**5,612**	**3,690**	**379,420**	**294,374**	**3,690**	**2,623**	**79**	**20**	**2,754**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 294,374; bonds – 16,263; securities borrowed or acquired in conjunction with resale agreements – 542; Assets with respect to derivatives – 3,353; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 87,286.
(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 1,731 million and off-balance sheet credit risk amounting to NIS 1,936 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 6,216 million for which insurance has been acquired to cover the housing bond portfolio from international reinsurers.

Credit risk by economic sector – Continued

As of December 31, 2022

Reported amounts (NIS in millions)

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

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

Exposure to foreign countries[1]

Reported amounts (NIS in millions)

Country	March 31, 2023[2]			March 31, 2022[3]			December 31, 2022[3]		
	Exposure								
	On balance sheet[4]	Off-balance sheet[4][5][6]	Total	On balance sheet[4]	Off-balance sheet[4][5][6]	Total	On balance sheet[4]	Off-balance sheet[4][5][6]	Total
USA	19,801	1,441	21,242	12,896	878	13,774	21,520	1,483	23,003
Barbados[7]	5,683	–	5,683	–	–	–	5,803	–	5,803
Others[8]	11,119	7,902	19,021	10,345	7,878	18,223	6,733	8,932	15,665
Total exposure to foreign countries	**36,603**	**9,343**	**45,946**	**23,241**	**8,756**	**31,997**	**34,056**	**10,415**	**44,471**
Of which: To Greece, Portugal, Spain, Italy	64	7	71	52	5	57	52	4	56
Of which: Total exposure to LDC countries	634	97	731	519	58	577	608	86	694

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

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

(3) Reclassified.

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

(5) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Conduct of Banking Business Directive 313.

(6) The balance of off-balance sheet exposure includes NIS 7,323 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 March 31, 2022: NIS 6,240 million; As of December 31, 2022: NIS 7,343 million).

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

(8) Balance sheet exposure includes NIS 3,781 million with respect to acquiring insurance from international reinsurers for the loan portfolio to finance land purchase for borrowers in the real estate sector in Israel.

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

	March 31, 2023	March 31, 2022	December 31, 2022
	–	UK	–

As of March 31, 2023 and December 31, 2022, there are no foreign countries for which the balance sheet exposure exceeds the threshold for this disclosure. (As of March 31, 2022, the balance sheet exposure with respect to the aforementioned country is NIS 3.2 billion)

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

	For the three months ended		For the year ended
	March 31, 2023	March 31, 2022	December 31, 2022
	Barbados	Barbados	Barbados
Exposure at start of reported period	5,803	–	–
Net changes to exposure	(120)	–	5,803
Exposure at end of reported period	**[1]5,683**	**–**	**[1]5,803**

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

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

Credit exposure to foreign financial institutions

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

External credit rating	On-balance sheet credit risk[(3)]	Current off-balance sheet credit risk[(4)]	Current credit exposure
			March 31, 2023 [(7)]
AAA to AA- [(8)]	6,982	4,594	11,576
A+ to A-	3,605	3,225	6,830
BBB+ to BBB-	–	4	4
BB+ to B-	–	–	–
Lower than B-	–	–	–
Unrated	1	23	24
Total credit exposure to foreign financial institutions	**10,588**	**7,846**	**18,434**

External credit rating	On-balance sheet credit risk[(3)]		Off-balance sheet credit risk[(4)]	Current credit exposure	
	Before offset of deposits with respect to master netting agree-ments[(5)]	After offset of deposits with respect to master netting agree-ments[(6)]		Before offset of deposits with respect to master netting agree-ments	After offset of deposits with respect to master netting agree-ments[(5)]
					March 31, 2022
AAA to AA-	3,474	3,425	6,007	9,481	9,432
A+ to A-	1,627	1,421	292	1,919	1,713
BBB+ to BBB-	16	16	20	36	36
BB+ to B-	–	–	–	–	–
Lower than B-	–	–	–	–	–
Unrated	18	20	36	54	56
Total credit exposure to foreign financial institutions	**5,135**	**4,882**	**6,355**	**11,490**	**11,237**

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

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

(2) After deduction of provision for credit losses.

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

(4) The balance of off-balance sheet exposure to financial institutions includes NIS 7,323 million as of March 31, 2023 (as of March 31, 2022: NIS 6,240 million; as of December 31, 2022: NIS 7,343 million) with respect to acquiring insurance from international reinsurers for the portfolio of housing bonds for borrowers in the real estate sector in Israel as well as guarantees and additional commitments to extend credit, including guarantees to secure indebtedness of third parties.

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

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

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

(8) The Bank Group has exposure to foreign financial institutions, as defined in Proper Conduct of Banking Business Directive 202, in excess of 15% of the capital base: Exposure to Barbados, amounting to NIS 5,683 million, rated equivalent to AA- (total exposure at end of 2022 amounted to NIS 5,803 million, rated equivalent to AA-).

Due to the higher inflation, many central banks started to apply a restraining monetary policy and to raise interest rates, a trend which continued in the first quarter of 2023. Due to changes in interest rate policy and other macro-economic developments, many economists expect growth rates to slow down around the world, and some countries may even end up in recession. Political and macro-economic developments had negative impact on the global financial system. Many banks recognized impairment in their securities portfolios, and there is concern with regard to increase in non-accruing credit ub sine sectors, including commercial real estate and high-tech.

In the first quarter of 2023, following the collapse of multiple banks in Europe and in the USA, the Bank is closely monitoring exposures to financial institutions. Note that Bank exposure to the impacted financial institutions is negligible.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 11.B. to the financial statements.
Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, loans to the public, public investment in bonds and other assets with respect to derivatives. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

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

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

Out of total exposure, NIS 656 million, mostly with respect to derivative operations, is to financial institutions in the USA; the great majority is to major US banks rated A- or higher by S&P. The exposure is mostly to major Global Systemically Important Banks (G-SIBs), which are subject to strict regulatory requirements, including taking part in stress testing and increased capital requirements. All of these banks have a stable credit profile and diverse funding sources. They operate throughout the USA and globally, providing a wide range of retail, commercial and corporate banking services.

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

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

Residential mortgages risk and its development

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of residential mortgages. Residential mortgages account for a significant share of all credit risk at the Bank, but this segment is still highly diversified and has a Low-Medium risk level, due to extensive diversification of borrowers from various economic sectors, relatively low LTV ratios, extensive geographic diversification of pledged assets and use of various risk mitigators, including property and life insurance, to mitigate credit risk in this segment. The Bank's policies with regard to mortgages are based on a specific approach, limiting specific risk for each loan by reviewing various risk attributes. These attributes include: review of borrower quality and their capacity to make current repayments even under scenarios involving changes to interest rates, ratio of repayment to regular household income, review of transaction data and LTV ratio. The Bank sometimes requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income and other bolstering measures as required.

The Bank acts regularly to control and manage the risk associated with residential mortgages, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity also includes portfolio analysis and monitoring by key risk factors and estimation of portfolio risk using an advanced model for rating residential mortgages, including rating of each loan and calculation of probability of default and potential loss given default, as well as conducting various stress scenarios to review the effect of changes to macro-economic factors on the portfolio risk level, primarily the impact of change in unemployment, change in housing prices and change in interest rates.

Bank policy with regard to mortgages is based on an individual approach to limit the specific risk in each loan, by reviewing various risk attributes and analyzing the loan application based on risk factors with respect to borrower quality and to the nature of the transaction presented to the Bank.

When assessing borrower quality, the Bank considers, *inter alia*, the following: Per capita income, income stability, seniority and so forth. Moreover, approval of loans involves a high weighting attributed to the loan repayment to income ratio, so as to review the household repayment capacity, including under a scenario of higher interest rates.

The Bank also considers risk factors with regard to the transaction and to collateral, such as the loan purpose, LTV ratio, geographic location of collateral, findings on the appraiser report and so forth.

The Bank sometimes requires additional bolstering, such as guarantors for the loan, proven repayment capacity not based on regular borrower income and other bolstering measures. The Bank has an advanced model for rating residential mortgages, which includes a rating for each loan and calculation of potential loss in case of failure. This model is part of the Bank's existing risk monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on residential mortgage operations, to account for major risk factors. These factors are reviewed from time to time and additional restrictions are imposed as needed, i.e. based on the actual risk profile of the mortgage portfolio and its trend, as well as on regulatory directives from the Bank of Israel.

These restrictions, as a whole, form the Bank's risk appetite for mortgages is defined using multiple risk benchmarks, which evaluate credit risk and concentration risk aspects at regular performance level and the overall portfolio. These benchmarks include: the LTV ratio, property location (geographic risk), credit quality benchmark (see below under Credit Control), loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.

The Bank acts regularly to control and manage the risk associated with residential mortgages, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity also includes portfolio analysis and monitoring by key risk factors and estimation of portfolio risk using an advanced model for rating residential mortgages, including rating of each loan and calculation of probability of default and potential loss given default, as well as conducting various stress scenarios to review the effect of changes to macro-economic factors on the portfolio risk level, primarily the impact of change in unemployment, change in housing prices and change in interest rates.

Regular monitoring of the risk profile of the mortgage portfolio and its evolution over time, in view of the specified risk appetite, shows that leading risk benchmarks remain stable and do not indicate material deterioration or change in risk level, despite the current uncertainty with regard to further developments in the macro-economic environment and its impact on the Bank. These benchmarks include: LTV ratios, repayment ratio, rate of obligation in default and, in particular, the rate of arrears for new loans (one year since origination), which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of March 2023) was 53.8% (reflecting the LTV ratio upon loan origination – see more details below).

The Bank constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite, and should the potential future risk decrease, the risk level in the residential mortgage portfolio would decrease back to Low.

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

	Loans granted (NIS in millions)		
	First quarter		Rate of Change
	2023	2022	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	6,470	11,747	(44.9)
From funds of the Finance Ministry:			
Directed loans	29	54	(46.3)
Standing loans and grants	22	27	(18.5)
Total new loans	**6,521**	**11,828**	**(44.9)**
Refinanced loans	1,300	2,387	(45.5)
Total loans originated	**7,821**	**14,215**	**(45.0)**
Number of borrowers (includes refinanced loans)	9,999	17,966	(44.3)

Below are details of various risk attributes of the residential mortgage portfolio[1] as of March 31, 2023 (NIS in millions):

LTV ratio	Repayment ratio out of regular income	Loan age[2] (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	2,167	10,432	18,301	31,708	28,069	13,083	103,760
	35%-50%	752	3,234	3,484	4,610	5,103	3,072	20,255
	50%-80%	–	1	9	25	210	950	1,195
	Over 80%	–	–	1	–	11	89	101
60%-75%	Up to 35%	1,194	8,267	13,958	20,253	11,187	3,547	58,406
	35%-50%	629	3,550	2,985	2,551	1,749	863	12,327
	50%-80%	–	2	2	14	46	230	294
	Over 80%	–	–	–	–	1	18	19
Over 75%	Up to 35%	22	169	237	430	232	956	2,046
	35%-50%	5	41	44	46	54	237	427
	50%-80%	–	–	–	–	5	54	59
	Over 80%	–	–	–	–	–	12	12
Total		**4,769**	**25,696**	**39,021**	**59,637**	**46,667**	**23,111**	**198,901**
Of which:								
Loans granted with original amount over NIS 2 million		782	4,621	5,555	5,001	2,936	1,115	20,010
Percentage of total residential mortgages		16.4%	18.0%	14.2%	8.4%	6.3%	4.8%	10.1%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,006	10,151	15,270	19,426	13,731	8,029	67,613
CPI-linked[3]		450	3,041	2,721	689	395	2,824	10,120
In foreign currency[3]		50	586	713	1,201	894	809	4,253
Total		**1,506**	**13,778**	**18,704**	**21,316**	**15,020**	**11,662**	**81,986**
Non-linked loans at prime lending rate, as percentage of total residential mortgages		21.1%	39.5%	39.1%	32.6%	29.4%	34.7%	34.0%
CPI-linked loans bearing variable interest as percentage of total residential mortgages		9.4%	11.8%	7.0%	1.2%	0.8%	12.2%	5.1%
Loans with LTV over 75% as percentage of total residential mortgages		0.6%	0.8%	0.7%	0.8%	0.6%	5.4%	1.3%

(1) Balance of residential mortgages after provision for credit losses.

(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.

Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date.

This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.

(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years (not inclusive).

Attributes of the Bank's residential mortgages portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by evaluating various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by loan risk factors, as detailed below (all data below as of March 31, 2023).

LTV

One of the key parameters used by the Bank in minimizing risk in its residential mortgage portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral).

The average loan-to-value ratio for the Bank's mortgage portfolio as of March 31, 2023 was 53.8%, compared to 53.6% on March 31, 2022 and to 54.6% on December 31, 2022. Out of the total loan portfolio of the Bank, amounting to NIS 198.9 billion, some 98.7% were granted with an original LTV ratio under 75%, which secures the loan even in case of a significant decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.5 billion, or only 0.3% of the total residential mortgage portfolio.

Note, in this regard, that the Bank's average LTV ratio as of March 31, 2023, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago – by 3.8%. For loans originated one to 5 years ago – by 4.5%; for loans originated over 5 years ago – by 17.8%; for all loans in total – by 9.0%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total residential mortgage portfolio of the Bank to 0.7% for loans granted 1-2 years ago, 0.8% for loans granted 3-12 months ago and 0.6% for loans granted in the first quarter of 2023.

Repayment as percentage of regular income

The LTV ratio of a residential mortgage is a benchmark of loan security, regardless of borrower attributes. Therefore, in addition, when a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular borrower income.

The average repayment ratio for the Bank's residential mortgage portfolio is 26.2%. 82.8% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is: 23.3%). Some 16.4% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is: 39.2%). Only 0.8% of all mortgages were extended to borrowers with a repayment ratio over 50%.

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, or with high free per capita income net of mortgage repayment, or whose repayment capacity is not necessarily based on current income, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially stable guarantors. Moreover, approval of loans to such customers involves a high weighting attributed to the loan repayment to income ratio in conformity with a "normative interest rate", so as to review the household repayment capacity under a scenario of higher interest rates.

Loans bearing variable interest

The Bank offers customers residential mortgages which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

On December 27, 2020, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages". The update includes elimination of the restriction on lending at the prime lending rate, so that the restriction of at least one third of the mortgage that must bear fixed interest remains, and up to two thirds may be extended bearing variable interest.

The amendments to the directive pursuant to the circular are effective as from January 17, 2021. For residential mortgages intended to finance early repayment of a loan extended by the Bank or by another bank, the amendment applies as from February 28, 2021.

The Bank provides customers with the knowledge and expertise of its staff in order for customers to understand the risk involved with a loan bearing adjustable interest and how this risk may be mitigated or avoided. The Bank advises customers to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.
Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 26.4 billion, or 13.3% of the residential mortgage portfolio.
Note that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank evaluates the repayment capacity of the borrower under scenarios where the prime lending rate would increase to the "normative interest rate".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 20 billion on March 31, 2023, or 10.0% of the Bank's residential mortgage portfolio.

For more information about residential mortgages risk, see also the 2023 Risks Report available on the Bank website.

Operational Risk

Risk description and development thereof

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 risk is defined as the risk of loss due to inappropriateness or failure of internal processes, people and systems or due to external events. 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.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity". The Bank is at a high state of readiness for business continuity in case of emergency.
As for Group-level control, in this quarter, too, the Bank continued to maintain constant contact with business continuity units of the Group and its overseas branches, including preparation for the work plan and exercise plan for 2023.

Information security and cyber defense

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

Cyber threats towards local and global financial institutions continues to evolve and increase. Attack incidents show increased sophistication and motivation, with a significant increase in the number of cyber events and in the extent of losses due to such events world-wide. Moreover, technology and digital developments to the banking system increase the threat surfaces and increase cyber risk. 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 and in order to reduce the capacity to conduct un-authorized transactions in customer accounts.

In the first quarter of 2023, information security and cyber risk remained Medium. In this quarter, a small number of fraud attempts against customers (through phishing attacks) were identified, in which their account credentials were stolen in order to conduct un-authorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in customer accounts. The Bank continues to bolster and improve its defensive measures in conformity with expansion of threats and challenging needs which the Bank is required to face. Note that despite the increase in cyber risk world-wide and in Israel, due inter alia to increased use of cloud environments, increased remote working and more sophisticated attacks, primarily ransom attacks – the actions taken by the Bank in recent years have maintained risk at the Bank unchanged.

IT risk

Technological risk is a significant risk to the banking system, affected by accelerated evolution in technology and digital domains, in order to provide response to changing customer needs. The legacy core systems in the banking system, along with multiple banking regulatory requirements within short timeframes increase the potential damage that may arise from technology risk that is material for proper operation of the Bank. In the first quarter of 2023, the Technology Division continues to fully operate in support of normal Bank operations and in providing a response to current and future technology requirements for such operations. As part of bolstering its technology infrastructure, the Bank invests 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 rapid pace of change in technology, changes to how services are made accessible to customers and expansion of the range of channels used by the Bank and its customers, require constant investment in technology. The Bank is also developing advanced tools for handling data and extracting information from data, in order to improve its measuring capacity and decision making, both from business marketing aspects and from risk management aspects.

The management framework is specified in a special policies document, in line with principles specified in policy documents on risks management and control at the Bank. The IT asset management policy is in line with requirements of the Supervisor of Banks and, in particular, with the principles stipulated in Proper Conduct of Banking Business Directive 357 "IT management"; Proper Conduct of Banking Business Directive 350 "Operational risk management"; Proper Conduct of Banking Business Directive 355 "Business continuity management" and Proper Conduct of Banking Business Directive 361 "Cyber security management".

Risk appetite is defined in quantitative and qualitative terms under normal and emergency scenarios, with the Bank's risk appetite in operational aspects for IT risk included under management of operational risk appetite. Risk appetite for technology aspects is defined by multiple benchmarks, including risk levels on the map of technology risk and specific risk appetite for diverse risk factors.

The Bank operates multiple measures to mitigate risk, including use of indicators (KRI) and support systems. Note that the SOC (Security Operation Center) operates 24/7 and is responsible for monitoring Bank infrastructure and systems, analyzing logs and identifying anomalies in real time, unusual behavior of users and systems in the network from information and cyber security aspects. The Bank also has a NOC (Network Operations Center), operating 24/7 as an operational unit for presenting the unified picture of enterprise infrastructure, capability for monitoring and forecasting faults, analyzing logs and identifying anomalies from technology risk aspects. In 2022, the Bank continued to reinforce its capacity to identify malfunctions in early stages, and expanded the use of bots to improve the effectiveness of system availability monitoring.

In 2019, the Bank started a project to replace its CRM system gradually, over several years. In 2022, several milestones went live, along with further development of upcoming milestones.

In January 2023, the new payment / receipt server system went live, which is designed to provide a solution in this area for all Bank applications.

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

Legal risk

Legal risk is defined in Proper Conduct of Banking Business Directive 350 regarding "Operational risks" and includes absence of potential for legal enforcement of an agreement and includes, but is not limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: customers, suppliers and other third parties).

Legal risk includes risks arising from legislative and regulatory provisions and positions, rulings by judiciary or quasi-judiciary authorities as well as legal risks arising from regular Bank operations. The Chief Legal Counsel for the Bank has been appointed Chief Legal Risks Manager. The Bank constantly strives to minimize as much as possible the legal risks associated with its current operations, and acts to disseminate a practical culture leading to identification and mitigation of legal risk in all its different aspects.

The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level

and exposure with attention to the different lines of business at the Bank and provides current legal advice to the Bank and its various units and to provide group supervision over risk management at the Bank Group.
In the first quarter of 2023, legal risk remained Low-medium.

For more information about operational risk, see the Risks Report for the first quarter of 2023, available on the Bank website.

Market risk and interest risk

Risk description and development thereof

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

Interest rate risk in the banking portfolio is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.

The market risk in the trading portfolio is minimal, in line with Bank policy. The Bank structure, which is weighted towards the mortgage portfolio, produces long-term uses for which the Bank requires sources. The Bank regularly reviews the risk estimation methodology, in line with global common practice.

The overall risk level of market and interest risk remained Low-Medium. Interest risk remained Medium, after increasing in the previous quarter from Low-Medium due to the higher interest rates, high uncertainty and potential impact for borrower and depositor behavior. Due to continued uncertainty with regard to potential developments in changes in the macro-economic environment in Israel and world-wide and continuation of the Russia-Ukraine war, and their impact on the Bank, close monitoring of potential effects of such changes on Bank activity and risk assessment continues, even to a higher degree. Risk values measured in the normal course of business and under stress scenarios were higher in this quarter, due to current banking operations and to higher capitalization curves. Furthermore, the Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.

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

	First quarter		All of
	2023	**2022**	**2022**
At end of period	1,618	555	759
Maximum value during period	(Mar.) 1,618	(Feb.) 611	(Jul.) 1,018
Minimum value during period	(Jan.) 875	(Jan.) 553	(Apr.) 533

Market risk is primarily due to interest risk in the bank portfolio, as presented below.

Back-testing of the historical-analytic VAR model in the overall portfolio showed six profit/loss observations which deviate from the VAR model forecast.

Analysis of interest risk in bank portfolio

Below is the effect[1] of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

	March 31, 2023					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	USD	EUR	Other	Total
2% increase	(1,111)	(2,590)	485	7	26	(3,183)
2% decrease	1,777	3,266	(495)	36	(26)	4,558
	March 31, 2022					
2% increase	(1,501)	(1,444)	469	9	17	(2,450)
2% decrease	529	799	(463)	37	(19)	883
	December 31, 2022					
2% increase	(878)	(2,435)	459	20	22	(2,812)
2% decrease	895	2,519	(449)	21	(25)	2,961

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

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the prepayment rate and manner are taken into account.

Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different customer types.

The Bank regularly reviews the risk estimation methodology, in line with global common practice.

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value[1] of financial instruments of the Bank and its subsidiaries thereof:

	As of March 31, 2023			As of March 31, 2022			As of December 31, 2022		
	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total
Net adjusted fair value[1]	23,026	1,212	24,238	20,764	435	21,199	21,360	1,442	22,802
Of which: Banking portfolio	16,893	(1,538)	15,355	16,878	2,300	19,178	17,264	1,534	18,798

Impact of change scenarios in interest rates on net adjusted fair value[1] of the Bank and its subsidiaries:

	As of March 31, 2023			As of March 31, 2022			As of December 31, 2022		
	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total
Concurrent changes									
Concurrent 1% increase	(1,140)	537	(603)	(396)	71	(325)	(808)	339	(469)
Of which: Banking portfolio	(1,137)	533	(604)	(362)	90	(272)	(787)	340	(447)
Concurrent 1% decrease	865	(692)	173	(171)	(125)	(296)	641	(489)	152
Of which: Banking portfolio	862	(689)	173	(197)	(143)	(340)	617	(491)	126
Non-concurrent changes									
Steeper[3]	(1,335)	195	(1,140)	(193)	(49)	(242)	(1,034)	133	(901)
Shallower[4]	1,065	(25)	1,040	28	86	114	1,072	25	1,097
Short-term interest increase	(117)	309	192	227	144	371	(4)	333	329
Short-term interest decrease	274	(317)	(43)	(66)	(148)	(214)	336	(340)	(4)

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

(2) Includes Israeli currency linked to foreign currency.

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

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

The difference between exposure of the bank portfolio to changes in interest according to net adjusted fair value and sensitivity of economic value (EVE) presented above, under a 1% concurrent shift of the curve, amounts to NIS 1,204 million.

Most of this difference is due to use of different capitalization curves. The capitalization curves used to analyze sensitivity of economic value (EVE) are transfer pricing curves, while discount rates used to present net adjusted fair value are possible discount rates for similar transactions on the balance sheet date, reflecting the inherent risk for a similar customer.

This calculation allows for scenarios which may result in negative interest rates and does not cap interest rates at 0%.

See Note 15 to the financial statements for additional information.

Note that the internal rate of return and the average effective duration, as presented under Bank exposure to changes in interest rates on the Risks Report, are average data and therefore it is not possible to make deductions based on a linear change there to with regard to sensitivity of net adjusted fair value to changes in interest rates.

Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues[(1)]:

	As of March 31, 2023			As of March 31, 2022			As of December 31, 2022		
	Interest revenues	Non-interest financing revenues[(3)]	Total	Interest revenues	Non-interest financing revenues[(3)]	Total	Interest revenues	Non-interest financing revenues[(3)]	Total
Concurrent changes[(2)]									
Concurrent 1% increase	275	(73)	202	1,335	21	1,356	472	26	498
Of which: Banking portfolio	311	(97)	214	1,334	47	1,381	472	28	500
Concurrent 1% decrease	(1,027)	(437)	(1,464)	(1,210)	(27)	(1,237)	(1,100)	(272)	(1,372)
Of which: Banking portfolio	(988)	(412)	(1,400)	(1,210)	(57)	(1,267)	(1,100)	(274)	(1,374)

(1) For a one-year term.

(2) Changes to risk-free interest.

(3) Includes the effect of fair value, gain (loss) from transactions in bonds and the effect of interest accrual for transactions in derivatives.

Below are the key assumptions underlying the above data, which are in line with how the Bank manages interest risk:

- Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different customer types.
- As from 2021, when calculating sensitivity of interest revenues, the risk-free interest rate is not capped at a minimum of 0%. In the same way, no cap is applied to the discount rate at 0% when calculating non-interest financing revenues.
- Given the change in the interest rate environment, behavioral assumptions were updated with respect to current account balances in credit and the securities portfolio. The assumption is that under a scenario of rising interest rates, funds would be diverted from current account balances to interest-bearing deposits, as well as changes to bonds in the nostro portfolio.

Under the concurrent scenario of interest rate increase by 1%, and with no change assumed in total bonds in the nostro portfolio. the capital reserve with respect to securities is expected to decrease by NIS 311 million.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 15 to these financial statements and Note 33 to the financial statements as of December 31, 2022.

Analysis of CPI and exchange rate exposures

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of March 31, 2023, capital increase (erosion) (NIS in millions):

	Scenarios				Historical stress scenario[(1)]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI[(2)]	2,912.2	1,456.1	(1,456.1)	(2,912.2)	330.0	(261.3)
USD	32.1	12.5	(9.2)	(11.1)	8.0	(7.0)
GBP	1.5	0.7	(0.5)	(1.2)	0.5	(0.7)
JPY	1.1	0.6	0.3	2.2	0.6	0.4
EUR	5.1	0.8	2.0	3.5	0.5	2.1
SFR	(0.2)	(0.1)	0.1	0.2	(0.3)	0.1

(1) Stress scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

(2) Capital sensitivity to a 3% increase / decrease in the CPI is NIS 873.7 million and NIS (873.7) million, respectively.

Share price risk

For more information about share price risk, see the 2022 Risks Report available on the Bank website.

For information about equity investments, see Note 5 to these financial statements and Notes 12 and 15.A to the 2022 financial statements.

Liquidity and financing risk

Risk description and development thereof

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

Financing risk – risk resulting from shortage of financing sources or too high costs to raise such sources.

Liquidity risk is managed subject to the limitations of the Board of Directors and Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

In the first quarter of 2023, there were no recorded deviations from the Board of Directors' restrictions.

Liquidity risk remained low-medium. Since early March 2022, the alert level at the Bank was raised to Yellow, due to continued market volatility and continued uncertainty with regard to macro-economic impact. In practice, no events and/or indications were observed which would indicate realization of a liquidity event. For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the 2022 Risks Report available on the Bank website.

Liquidity coverage ratio

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 by 5% higher than the minimum required. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the Bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This directive is in addition to liquidity risk management using internal models, as stipulated by Directive 342.

The average liquidity coverage ratio (consolidated) for the first quarter of 2023 was 126%. As noted above, in this period there were no recorded deviations from these restrictions.

Net stable funding ratio

Proper Conduct of Banking Business Directive 222 "Net stable funding ratio" stipulates a minimum net stable funding ratio of 100% ("Regulatory NSFR") of available stable funding and required stable funding. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the net stable financing ratio for the Group would be 5% higher than the minimum required. This ratio is managed and reported in total for all currencies, on consolidated basis.

Net stable funding ratio (on consolidated basis) as of March 31, 2023 was 113%. No deviations from the risk appetite limitations were recorded. As of March 31, 2023, the balance of the three largest depositor groups at the Bank Group amounted to NIS 21.0 billion.

For more information about raising sources and development of the balance of deposits from the public, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

For more information about the liquidity coverage ratio, see the Risks Report available on the Bank website.

Other risks

Compliance and regulatory risk

Risk description and development thereof

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

Compliance provisions also include the following laws: ISA Enforcement Proceeding Streamlining Law (Legislative Amendments), 2011; Securities Law 1968; Mutual Investment Law, 1994; Arrangement of Engagement in Investment Consultancy, Investment Marketing and Management of Portfolios Law, 1995 (hereinafter: "the Advisory Law"); hereinafter jointly – "securities laws" as well as the Economic Competition Law, 1988. Compliance with these laws is also handled by internal enforcement programs of securities laws and economic competition laws, respectively. Compliance risk includes Bank compliance with fairness aspects and with privacy protection laws. Note that the Bank has practically zero risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank. Therefore, the Bank has determined that any deficiencies found in compliance with statutory provisions should be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan, which includes required action for reducing compliance risk.

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

The compliance and regulatory Risk Manager for the Bank is the Manager, Risks Control Division. The Compliance Officer is responsible for continuous management of this risk.

For more information about compliance risk and regulation, see also the 2022 Risks Report available on the Bank website.

Cross-border risk

Risk description and development thereof

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 Act – "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 near-zero appetite for cross-border risk. Therefore, the Bank has specified that any faults discovered with regard to cross-border risk would be addressed by Bank units as a top priority.

Cross-border risk remained unchanged in the first quarter of 2023 and is defined as low-medium. The Bank continues to maintain processes designed to improve the quality of risk management *inter alia*, by revising procedures, automating work processes, delivering training, activity of foreign residents in specialized branches and specification of work routines in processes required tor reporting under both FATCA and CRS. The Bank also monitors regulatory updates from relevant countries for the Bank and its affiliates, once every quarter, to verify their relevance for Bank operations and to implement them if applicable. For more information about cross-border risk, see also the 2022 Risks Report available on the Bank website.

The Bank applies the statutory provisions for implementation of FATCA and CRS, and provides timely reports to the Israeli Tax Authority/ The Bank is compliant with terms and conditions of the QI agreement with the IRS. International entities, including OFAC (of the US Department of Treasury) and the European Union have imposed international sanctions on countries, organizations and individuals. As part of management of its international financial operations and maintaining proper business relations with correspondent banks, the Bank is compliant with these sanctions, even though they do not apply directly to the Bank. As part of management of cross-border risk, the Bank especially monitors and reviews any monetary transactions where any party to such transaction is located in a country / entity subject to international sanctions.

AML risk

Risk description and development thereof

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 has zero risk appetite with regard to AML risk.

AML risk remained unchanged in the first quarter of 2023 and is defined as low-medium. The risk assessment is due, inter alia, to further intensive training and deployment activity along with risk-focused controls, improvement of documents and classifications, and taking effective action to avoid recurrence of unusual events and compliance failures, in view of increased business activity and further increased regulatory activity reflected, inter alia, in frequent issue of new directives, for which the Bank prepares accordingly.

Terror financing risk

Risk description and development thereof

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.

Terror financing risk remained unchanged in the first quarter of 2023 at Low. The risk assessment is based, *inter alia*, on risk assessment conducted by the Bank, on continued risk-focused management, as reflected by revision of operating procedures and processes, including IT support and process streamlining, training and deployment activities along with risk-focused controls in the first and second lines of defense, and taking effective action to prevent recurrence of unusual events and compliance failures and strict control over banking activity.

Reputational risk

Risk description and development thereof

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event, cyber security event or any other event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk – with growing demand by customers to withdraw deposits.

In the first quarter of 2023, reputational risk remained Low. The Bank constantly monitors various benchmarks and indicators with regard to the Bank's reputation, and has yet to identify any material impact on reputational risk, in view of regulatory involvement in promoting competition, media coverage of interest rate increases and its various effects on the mortgage and deposit market, and impact of new regulatory measures.

For more information about reputation risk, see also the 2022 Risks Report available on the Bank website.

Business-strategic risk

Risk description and development thereof

Strategic business risk – the risk, in real time or in future, to Bank profits, capital, reputation or status, which may arise from erroneous business decisions, improper deployment of decisions by the Bank or inappropriate alignment of the Bank to changes in the business environment in which it operates. This is material risk requiring risk management measures to be applied, assessment and early identification of events which may preclude implementation of the strategy. On April 26, 2021, the Bank’s Board of Directors approved a five-year strategic plan for 2021-2025 based, *inter alia*, on positioning the Bank as a key player in business banking, continued leadership position in the mortgage market, establishing the Bank Group's leadership position among households, providing personal, human banking services supported by advanced digital technology, including optimal combination of human and digital channels, with human service by expert bankers, including in digital, in accordance with customer choice and needs, as well as offering personalized value propositions across all channels, which are customized for customer needs, adapting the operating model to future challenges and further improvement in operating efficiency and leveraging the Union Bank merger to generate operating and business synergies and to realize economies of scale. For more information see Immediate Report dated April 27, 2021 (reference: 2021-01-071448). Bank results indicate that the Bank has surpassed the business objectives set in the strategic plan.

For more information about strategic-business risk, see also the 2022 Risks Report available on the Bank website.

For more information about environmental risk, see chapter "Risks Overview" of the 2022 Report of the Board of Directors and Management.

Policies and critical accounting estimates, controls and procedures

Policies and critical accounting estimates

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.
For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.
The significant accounting policies are detailed in Note 1 to the 2022 financial statements.
The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.
Management estimates and key assumptions used in applying accounting policy to these financial statements are consistent with those used to prepare the financial statements as of December 31, 2022. For more information about accounting policies on critical matters, see chapter "Policies and critical accounting estimates" of the 2022 Report of the Board of Directors and Management.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, based on requirements stipulated in Sections 302 and 404 of the American Sarbanes Oxley Law, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures (hereinafter: "Disclosure Certification").

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

Evaluation of controls and procedures with regard to disclosure

Bank management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures as of March 31, 2023. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of the period ended March 31, 2023, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Changes to internal controls

In the first quarter of 2023, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting.

Moshe Vidman	Moshe Lari
Chairman of the Board of Directors	President & CEO

Approval date:
Ramat Gan
May 16, 2023

Certification

I, MOSHE LARI, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. (hereinafter: "the Bank") for the quarter ended March 31, 2023 (hereinafter: “the Report”).
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders’ equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure[(1)] and to the Bank's internal controls over financial reporting[(1)] as well as:
    A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
    B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
    C. We have evaluated the effectiveness of the Bank’s disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
    D. We have disclosed in this Report any change in the Bank’s internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank’s internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank’s independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
    A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank’s ability to record, process, summarize and report financial information; and
    B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank’s internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Lari Moshe

Moshe Lari

President & CEO

May 16, 2023

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. (hereinafter: "the Bank") for the quarter ended March 31, 2023 (hereinafter: "the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv

Vice-President
Chief Accountant

May 16, 2023

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Deloitte.

Independent Auditors' review report to shareholders of Bank Mizrahi-Tefahot Ltd

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. and subsidiaries thereof ("the Bank"), consisting of the condensed consolidated balance sheet as of March 31, 2023, the condensed consolidated statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the three-month period then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion with regard to financial information for this interim period, based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 4.26% of total consolidated assets as of March 31, 2023, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 5.83% of total consolidated net interest revenues before expenses with respect to credit losses for the three-month period then ended. The condensed financial information for the interim period of these companies was reviewed by other auditors, whose review reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the review reports of the other auditors.

Review scope

We have conducted our review in accordance with Review Standard (Israel) no. 2410 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly limited in scope as compared to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to assume that the aforementioned financial information has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv, May 16, 2023

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Bank Mizrahi Tefahot

Condensed financial statements as of March 31, 2023

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Condensed consolidated statements of profit and loss

Reported amounts (NIS in millions)

		For the three months ended March 31		For the year ended December 31
		2023	2022	2022
	Note		(Unaudited)	(Audited)
Interest revenues	2	5,760	3,144	16,195
Interest expenses	2	2,614	1,000	5,955
Interest revenues, net		3,146	2,144	10,240
Expenses with respect to credit losses	6.13	227	79	532
Interest revenues, net after expenses with respect to credit losses		**2,919**	**2,065**	**9,708**
Non-interest revenues				
Non-interest financing revenues	3	87	117	754
Commissions		528	520	2,052
Other revenues		65	432	622
Total non-interest revenues		**680**	**1,069**	**3,428**
Operating and other expenses				
Payroll and associated expenses		931	909	4,029
Maintenance and depreciation of buildings and equipment		306	237	1,012
Other expenses		200	242	1,132
Total operating and other expenses		**1,437**	**1,388**	**6,173**
Pre-tax profit		2,162	1,746	6,963
Provision for taxes on profit		747	569	2,356
After-tax profit		**1,415**	**1,177**	**4,607**
Share in profit (loss) of associated companies, after tax		1	1	5
Net profit:				
Before attribution to non-controlling interests		1,416	1,178	4,612
Attributable to non-controlling interests		(49)	(24)	(140)
Attributable to shareholders of the Bank		**1,367**	**1,154**	**4,472**

The accompanying notes are an integral part of the financial statements.

Moshe Vidman	**Moshe Lari**	**Menahem Aviv**
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Accountant

Approval date:
Ramat Gan, May 16, 2023

Condensed consolidated statements of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31
	2023	**2022**	**2022**
		(Unaudited)	**(Audited)**
Earnings per share[1] (in NIS)			
Basic earnings			
Net profit attributable to shareholders of the Bank	5.32	4.50	17.47
Weighted average number of ordinary shares used to calculate basic earnings (thousands of shares)	257,186	256,515	255,953
Diluted earnings			
Net profit attributable to shareholders of the Bank	5.30	4.43	17.38
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	258,094	260,524	257,319

(1) Share of NIS 0.1 par value.

Condensed consolidated statements of comprehensive income

Reported amounts (NIS in millions)

		For the three months ended March 31		For the year ended December 31
		2023	2022	2022
	Note		(Unaudited)	(Audited)
Net profit:				
Before attribution to non-controlling interests		1,416	1,178	4,612
Attributable to non-controlling interests		(49)	(24)	(140)
Net profit attributable to shareholders of the Bank		**1,367**	**1,154**	**4,472**
Other comprehensive income (loss) before taxes	4			
Adjustments for presentation of available-for-sale bonds at fair value, net		5	(344)	(809)
Adjustments from translation of financial statements of investments in associated companies(1)		–	–	–
Net gains (losses) with respect to cash flows hedging		–	(11)	18
Adjustments of liabilities with respect to employees' benefits(2)		31	214	517
Total other comprehensive income (loss), before tax		**36**	**(141)**	**(274)**
Related tax effect		(12)	48	70
Other comprehensive income (loss) after taxes(3)				
Other comprehensive income (loss), before attribution to non-controlling interests		24	(93)	(204)
Less other comprehensive income (loss) attributed to non-controlling interests		1	5	7
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**23**	**(98)**	**(211)**
Comprehensive income:				
Before attribution to non-controlling interests		1,440	1,085	4,408
Attributable to non-controlling interests		(50)	(29)	(147)
Comprehensive income attributable to shareholders of the Bank		**1,390**	**1,056**	**4,261**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.
(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.
(3) For more information see Note 4 to the financial statements – cumulative other comprehensive income (loss).

The accompanying notes are an integral part of the financial statements.

Condensed consolidated balance sheets

Reported amounts (NIS in millions)

			As of March 31	As of December 31
		2023	2022	2022
	Note		(Unaudited)	(Audited)
Assets				
Cash and deposits with banks		90,240	84,666	93,673
Securities[1][2]	5	19,348	16,967	15,144
Securities borrowed or purchased in resale agreements		15	542	315
Loans to the public	6.13	315,416	285,457	310,356
Provision for credit losses	6.13	(3,097)	(2,540)	(2,884)
Loans to the public, net	6.13	312,319	282,917	307,472
Loans to Governments		531	457	318
Investments in associated companies		193	109	127
Buildings and equipment		1,399	1,400	1,503
Intangible assets and goodwill		170	201	178
Assets with respect to derivatives	11	6,257	3,353	5,789
Other assets		3,638	3,433	3,773
Total assets		**434,110**	**394,045**	**428,292**
Liabilities and Equity				
Deposits from the public	7	348,469	312,653	344,514
Deposits from banks		7,284	6,850	6,994
Deposits from the Government		32	66	47
Bonds and subordinated notes		34,608	36,045	33,287
Liabilities with respect to derivatives	11	5,988	2,940	5,214
Other liabilities [3]		11,747	13,307	13,368
Total liabilities		**408,128**	**371,861**	**403,424**
Shareholders' equity attributable to shareholders of the Bank		24,844	21,199	23,780
Non-controlling interests		1,138	985	1,088
Total equity		**25,982**	**22,184**	**24,868**
Total liabilities and equity		**434,110**	**394,045**	**428,292**

(1) Of which: NIS 15,813 million at fair value on consolidated basis (on March 31, 2022: NIS 13,952 million; on December 31, 2022: NIS 11,241 million).
(2) For more information with regard to securities pledged or provided as collateral to lenders, see Note 5 to the financial statements.
(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 181 million (on March 31, 2022: NIS 213 million, on December 31, 2022: NIS 220 million).

The accompanying notes are an integral part of the financial statements.

Condensed Statements of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss)[2]	Retained earnings[3]	Total shareholders' equity	Non-controlling interests	Total equity
	For the three months ended March 31, 2023 (Unaudited)							
Balance as of December 31, 2022	3,519	99	3,618	(514)	20,676	23,780	1,088	24,868
Net profit for the period	–	–	–	–	1,367	1,367	49	1,416
Dividends paid[4]	–	–	–	–	(326)	(326)	–	(326)
Realization of share-based payment transactions[5]	1	(1)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	23	–	23	1	24
Balance as of March 31, 2023	**3,520**	**98**	**3,618**	**(491)**	**21,717**	**24,844**	**1,138**	**25,982**
	For the three months ended March 31, 2022 (Unaudited)							
Balance as of December 31, 2021	3,497	76	3,573	(303)	17,500	20,770	959	21,729
Opening balance adjustment for effect of initial application of US GAAP with regard to credit losses[6]	–	–	–	–	(355)	(355)	(3)	(358)
Adjusted balance as of January 1, 2022 after initial application	3497	76	3,573	(303)	17,145	20,415	956	21,371
Net profit for the period	–	–	–	–	1,154	1,154	24	1,178
Dividends paid[4]	–	–	–	–	(272)	(272)	–	(272)
Realization of share-based payment transactions[5]	–	–	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(98)	–	(98)	5	(93)
Balance as of March 31, 2022	**3,497**	**76**	**3,573**	**(401)**	**18,027**	**21,199**	**985**	**22,184**
	For the year ended December 31, 2022 (audited)							
Balance as of December 31, 2021	3,497	76	3,573	(303)	17,500	20,770	959	21,729
Opening balance adjustment for effect of initial application of US GAAP with regard to credit losses[6]	–	–	–	–	(355)	(355)	(3)	(358)
Adjusted balance as of January 1, 2022 after initial application	3,497	76	3,573	(303)	17,145	20,415	956	21,371
Net profit for the period	–	–	–	–	4,472	4,472	140	4,612
Dividends paid[4]	–	–	–	–	(941)	(941)	–	(941)
Benefit from share-based payment transactions	–	45	45	–	–	45	–	45
Realization of share-based payment transactions[5]	22	(22)	–	–	–	–	–	–
Dividends attributable to non-controlling interests in subsidiary	–	–	–	–	–	–	(15)	(15)
Other comprehensive income (loss), net, after tax	–	–	–	(211)	–	(211)	7	(204)
Balance as of December 31, 2022	**3,519**	**99**	**3,618**	**(514)**	**20,676**	**23,780**	**1,088**	**24,868**

(1) Share premium generated prior to March 31, 1986.
(2) For more information see Note 4 – Cumulative other comprehensive income.
(3) For information about various restrictions on dividend distribution, see Note 24 to the 2022 financial statements.
(4) On March 28, 2023, a dividend distribution amounting to NIS 326 million was made in conformity with resolution by the Bank's Board of Directors. On February 28, 2022, a dividend distribution amounting to NIS 272 million was made in conformity with resolution by the Bank's Board of Directors. On March 15, 2022, August 30, 2022, December 13, 2022 the Bank paid dividends amounting to NIS 272, 316, 353 million, respectively, in conformity with a resolution by the Bank's Board of Directors.
(5) In the first quarter of 2023, 15,183 ordinary shares of NIS 0.1 par value were issued for exercise of options pursuant to the Employee Stock Option Plan. In the first quarter of 2022, 5,369 ordinary shares of NIS 0.1 par value were issued for exercise of options pursuant to the Employee Stock Option Plan. In 2022, the Bank issued 676,867 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 7,450 ordinary shares of NIS 0.1 par value each.
(6) Cumulative effect of initial application of US GAAP with regard to financial instruments – credit losses (ASU 2016-13) and updates there to. See also Note 1.C.1. to the 2022 financial statements.
– On May 16, 2023, the Bank's Board of Directors resolved to distribute a dividend amounting to NIS 410.1 million, or 30% of earnings in the first quarter of 2023. According to accounting rules, this amount will be deducted from retained earnings in the second quarter of 2023.

The accompanying notes are an integral part of the financial statements.

Condensed statements of cash flows

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31
	2023	2022[(1)]	2022
		(Unaudited)	(Audited)
Cash Flows from Current Activity			
Net profit before attribution to non-controlling interests	1,416	1,178	4,612
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(1)	(1)	(5)
Depreciation of buildings and equipment (including impairment)	144	72	332
Expenses with respect to credit losses	227	79	532
Gain from sale of securities available for sale and shares not held for trading	37	(16)	14
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	2	(13)	(103)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	5	(7)	45
Gain from sale of buildings and equipment	–	(240)	(241)
Impairment of securities held for sale and shares not held for trading	–	2	45
Expenses arising from share-based payment transactions	–	–	45
Deferred taxes, net	(163)	(342)	(408)
Change in employees' provisions and liabilities	(84)	(157)	138
Adjustments with respect to exchange rate differentials	(205)	(54)	(463)
Accrual differences included with investment and financing operations	(75)	101	203
Net change in current assets			
Assets with respect to derivatives	(468)	288	(2,119)
Securities held for trading	160	(287)	(147)
Other assets, net	319	29	(15)
Net change in current liabilities			
Liabilities with respect to derivatives	774	(813)	1,461
Other liabilities	(5,005)	(62)	(2,163)
Net cash provided by current operations	**(2,917)**	**(243)**	**1,755**

(1) Reclassified.

The accompanying notes are an integral part of the financial statements.

Condensed statements of cash flows – Continued

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31
	2023	2022	2022
		(Unaudited)	(Audited)
Cash flows from investment activities			
Net change in deposits with banks	(1,116)	(512)	(202)
Net change in loans to the public	(3,254)	(11,210)	(36,246)
Net change in loans to Governments	(213)	20	159
Net change in securities loaned or acquired in resale agreements	300	790	1,017
Acquisition of bonds held to maturity	(14)	(143)	(1,821)
Proceeds from redemption of bonds held to maturity	173	93	851
Purchase of securities available for sale and shares not held for trading	(3,021)	(2,962)	(15,233)
Proceeds from sale of securities available for sale and shares not held for trading	1,146	629	17,132
Proceeds from redemption of securities available for sale	67	90	222
Proceeds from sale of loan portfolios	25	–	1,943
Purchase of loan portfolios – public	(708)	(582)	(2,306)
Purchase of loan portfolios – Government	–	–	–
Acquisition of buildings and equipment	(39)	(41)	(391)
Proceeds from sale of buildings and equipment	–	544	532
Purchase of shares in associated companies	(15)	(40)	(61)
Proceeds from realized investment in associated companies	–	1	8
Net cash provided by investment activities	**(6,669)**	**(13,323)**	**(34,396)**
Cash flows provided by financing operations			
Net change in deposits from the public	3,955	4,729	36,590
Net change in deposits from banks	290	(142)	2
Net change in deposits from Government	(15)	(15)	(34)
Issuance of bonds and subordinated notes	1,089	–	5,038
Redemption of bonds and subordinated notes	(161)	(1,901)	(10,258)
Dividends paid to shareholders	(326)	(272)	(941)
Dividends paid to external shareholders in subsidiaries	–	–	(15)
Net cash provided by financing operations	**4,832**	**2,399**	**30,382**
Increase (decrease) in cash	(4,754)	(11,167)	(2,259)
Cash balance at beginning of the period	92,865	94,661	94,661
Effect of changes in exchange rate on cash balances	205	54	463
Cash balance at end of the period	**88,316**	**83,548**	**92,865**
Interest and taxes paid / received			
Interest received	5,074	2,779	11,577
Interest paid	1,972	1,079	5,416
Dividends received	2	3	36
Income taxes received	17	24	140
Income taxes paid	761	367	2,211
Appendix A – Non-cash Transactions			
Acquisition of buildings and equipment	1	1	1
Sales of buildings and equipment	–	–	–

Note 1 – Reporting Principles and Accounting Policies

A. Overview

On May 16, 2023, the Bank's Board of Directors authorized publication of these condensed financial statements as of March 31, 2023.

The condensed financial statements are prepared in accordance with generally accepted accounting policies in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidance from the Supervisor of Banks, and does not include all of the information required in annual financial statements. These condensed financial statements should be read in conjunction with the audited financial statements as of December 31, 2022.

As noted in the annual report, for most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices of US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).

When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by banks in the United States.
In accordance with directives of the Supervisor of Banks, the condensed financial statements are issued on a consolidated basis only.
The Group accounting policies in these condensed consolidated quarterly financial statements are consistent with the policies applied in the annual financial statements, except as noted in section B. below.

B. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 1, 2023, the Bank applies the following new accounting standards and directives:

1. Update to standard 2022-01 in the codification, regarding improvements to application of fair value hedge accounting using the layer method in the portfolio.

Below is a description of the essence of changes applied to accounting policies in these condensed consolidated interim financial statements, and description of the initial implementation and any impact thereof:

1. Update to standard 2022-01 in the codification, regarding improvements to application of fair value hedge accounting using the layer method in the portfolio

On March 28, 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-01 regarding improvements to application of fair value hedge accounting using the layer method in the portfolio, designed to best align hedge accounting with the company's risk management policy (hereinafter: "the Update").

Some of the amendments included in this update are as follows:

- Expansion of the Final Layer method: The update allows for hedging of multiple layers in a single closed portfolio;
- Expansion of scope of the portfolio layer method: The update allows this method to also be applied to financial assets which may not be repaid early;
- Hedging instruments: The update clarifies that a derivative whose par value changes over time may be designated as a hedging instrument, such that this hedge would be considered a single-layer hedge, and the number of hedged layers would be consistent with the number of designated hedging relations;
- Basis adjustments: The update clarifies the treatment of basis adjustments in hedging using the portfolio layer method, and adds disclosure requirements;
- Credit losses: The update disallows accounting for basis adjustments of existing hedging relations, when determining credit losses for hedged items.

The directives would be implemented as from January 1, 2023.

Application of these directives had no material impact on the financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

C. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Amendment	Publication requirements	Start date and transition provisions	Implications
Update to standard ASU 2022-02 regarding re-structuring of problematic debts and disclosure requirements by year when credit was extended	On March 31, 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-02 regarding re-structuring of problematic debts and disclosure requirements by year when credit was extended with regard to provisions for credit losses (hereinafter: "the Update"). The Update rescinds the provisions regarding re-structuring of problematic debts by lenders, improving the disclosure requirements with respect to borrowers facing economic challenges. The Update also adds a disclosure requirement regarding gross write-offs by year when credit was extended.	In conformity with directives of the Supervisor of Banks	The Bank is reviewing the effect of the new provisions on its financial statements
Update to standard ASU 2022-03 regarding fair value measurement of equity securities subject to trade restriction	On June 29, 2022, the US Financial Accounting Standards Board ("FASB") issued ASU 2022-03 regarding fair value measurement of equity securities subject to trade restriction (hereinafter: "the Update"). The Update clarifies that contractual trade restriction on equity securities is an entity-specific restriction, and is not part of the accounting measurement unit of such securities, and therefore shall not be accounted for in fair value measurement. Furthermore, the Update adds disclosure requirements.	In conformity with directives of the Supervisor of Banks	No material impact is expected
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency "	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale bonds as part of fair value adjustment of such bonds, but rather to continue treating these as stipulated in the Public Reporting Directives prior to adoption of Section 830 of the Codification "Foreign currency", through December 31, 2023.	January 1, 2024	No material impact is expected

Note 2 – Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31
	2023	2022	2022
		(Unaudited)	(Audited)
a. Interest revenues[1]			
From loans to the public	4,875	3,050	14,794
From loans to Governments	5	4	11
From deposits with the Bank of Israel and from cash	740	26	1,014
From deposits with banks	23	1	38
Of securities borrowed or purchased in resale agreements	2	[2]-	10
From bonds	115	63	328
Total interest revenues	**5,760**	**3,144**	**16,195**
b. Interest expenses			
On deposits from the public	2,222	589	4,168
On deposits from governments	–	–	3
On deposits from banks	26	1	9
On bonds and subordinated notes	366	410	1,744
On other liabilities	–	–	31
Total interest expenses	**2,614**	**1,000**	**5,955**
Total interest revenues, net	**3,146**	**2,144**	**10,240**
c. Details of net effect of hedging financial derivatives on interest revenues[3]	(25)	51	18
d. Details of interest revenues on accrual basis from bonds			
Held to maturity	46	9	57
Available for sale	68	52	253
Held for trading	1	2	18
Total included under interest revenues	**115**	**63**	**328**

(1) Includes the effective element in the hedging ratios.
(2) Balance lower than NIS 0.5 million.
(3) Details of effect of hedging derivative instruments: on interest revenues, net.

Note 3 – Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31
	2023	2022	2022
		(Unaudited)	(Audited)
a. Non-interest financing revenues (expenses) with respect to non-trading operations			
1. From activity in derivative instruments			
Net revenues (expenses) with respect to ALM derivative instruments[1]	701	475	3,450
Total from activity in derivative instruments	**701**	**475**	**3,450**
2. From investment in bonds			
Gains on sale of bonds available for sale	(42)	10	(55)
Provision for impairment of bonds available for sale	(2)	–	(5)
Total from investment in bonds	**(44)**	**10**	**(60)**
3. Exchange rate differences, net	**(551)**	**(498)**	**(3,063)**
4. Gains from investment in shares			
Gains from sale of shares not held for trading	5	6	41
Provision for impairment of shares not held for trading	–	(2)	(45)
Dividends from shares not held for trading	2	3	36
Unrealized gains (losses)[3]	(7)	4	(81)
Total from investment in shares	**–**	**11**	**(49)**
5. Net gains with respect to loans sold	**–**	**–**	**8**
Total non-interest financing revenues with respect to non-trading purposes	**106**	**(2)**	**286**
b. Non-interest financing revenues (expenses) with respect to trading operations[2]			
Net revenues (expenses) with respect to other derivative instruments	(17)	106	365
Realized and un-realized gains (losses) from adjustment to fair value of bonds held for trading, net	(2)	11	98
Realized and un-realized gains (losses) from adjustment to fair value of shares held for trading, net	–	2	5
Total from trading activity[4]	**(19)**	**119**	**468**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	12	17	103
Foreign currency exposure	(31)	102	365
Exposure to shares	–	–	–
Exposure to commodities and others	–	–	–
Total	**(19)**	**119**	**468**

(1) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not designated as hedges.
(2) Includes exchange rate differentials resulting from trading operations.
(3) Including gains / losses from measurement at fair value of shares for which fair value is available, and upward / downward adjustment of shares for which no fair value is available.
(4) For interest revenues from investments in bonds held for trading, see Note 2.D.

Note 4 – Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

A. Changes to cumulative other comprehensive income (loss), after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests						
	Adjustments for presentation of available-for-sale bonds at fair value	Translation adjustments[1]	Net gains (losses) from cash flow hedges	Adjustments with respect to employees' benefits[2]	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income (loss) attributable to shareholders of the Bank
	For the three months ended March 31, 2023						
	(Unaudited)						
Balance as of December 31, 2022	(458)	(2)	–	(72)	(532)	(18)	(514)
Net change in the period	3	–	–	21	24	1	23
Balance as of March 31, 2023	**(455)**	**(2)**	**–**	**(51)**	**(508)**	**(17)**	**(491)**
	For the three months ended March 31, 2022						
	(Unaudited)						
Balance as of December 31, 2021	98	(2)	(12)	(412)	(328)	(25)	(303)
Net change in the period	(228)	–	(7)	142	(93)	5	(98)
Balance as of March 31, 2022	**(130)**	**(2)**	**(19)**	**(270)**	**(421)**	**(20)**	**(401)**
	For the year ended December 31, 2022						
	(Audited)						
Balance as of December 31, 2021	98	(2)	(12)	(412)	(328)	(25)	(303)
Net change in the period	(556)	–	12	340	(204)	7	(211)
Balance as of December 31, 2022	**(458)**	**(2)**	**–**	**(72)**	**(532)**	**(18)**	**(514)**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.

(2) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve for the streamlining program.

Note 4 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

B. Changes in items of cumulative other comprehensive income (loss) before and after tax effect

	For the three months ended March 31						For the year ended December 31		
			2023			2022			2022
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
						(Unaudited)			(Audited)
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for-sale bonds at fair value									
Net unrealized gains (losses) from adjustments to fair value	(39)	13	(26)	(334)	113	(221)	(864)	272	(592)
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[1]	44	(15)	29	(10)	3	(7)	55	(19)	36
Net change in the period	**5**	**(2)**	**3**	**(344)**	**116**	**(228)**	**(809)**	**253**	**(556)**
Translation adjustments									
Adjustments from translation of financial statements[2]	–	–	–	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges									
Net losses from cash flow hedges	–	–	–	(11)	4	(7)	18	(6)	12
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[3]	–	–	–	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**(11)**	**4**	**(7)**	**18**	**(6)**	**12**
Employees' benefits									
Net actuarial gain (loss) for the period	23	(7)	16	203	(68)	[4]135	455	(156)	299
Net losses reclassified to the statement of profit and loss	8	(3)	5	11	(4)	7	62	(21)	41
Net change in the period	**31**	**(10)**	**21**	**214**	**(72)**	**142**	**517**	**(177)**	**340**
Total net change in the period	**36**	**(12)**	**24**	**(141)**	**48**	**(93)**	**(274)**	**70**	**(204)**
Total net change in the period attributable to non-controlling interests	**2**	**(1)**	**1**	**8**	**(3)**	**5**	**11**	**(4)**	**7**
Total net change in the period attributable to shareholders of the Bank	**34**	**(11)**	**23**	**(149)**	**51**	**(98)**	**(285)**	**74**	**(211)**

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.
(2) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.
(3) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For details, see Note 3.A.1.
(4) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve for the streamlining program.

Note 5 – Securities

March 31, 2023 (unaudited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost	Balance of provision for credit losses	Adjustments to fair value yet to be recognized		Fair value[1]
				Gains	Losses	
(1) Bonds held to maturity						
of Government of Israel	2,743	2,743	–	–	(136)	2,607
Of financial institutions in Israel	359	359	–	–	(21)	338
Of others in Israel	92	92	–	–	(4)	88
Total bonds held to maturity	**3,194**	**3,194**	**–**	**–**	**(161)**	**3,033**
	Carrying amount	**Amortized cost**	**Balance of provision for credit losses**	**Cumulative other comprehensive income[4]**		**Fair value[1]**
				Gains	**Losses**	
(2) Bonds available for sale						
of Government of Israel	6,110	6,622	–	21	(533)	6,110
of foreign governments[3]	1,388	1,399	–	–	(11)	1,388
Of financial institutions in Israel	417	458	–	5	(46)	417
Of foreign financial institutions	272	282	–	1	(11)	272
Asset-backed (ABS)	56	59	–	–	(3)	56
Of others in Israel	856	925	–	9	(78)	856
Of others overseas	203	212	–	3	(12)	203
Total bonds available for sale	**9,302**	**9,957**	**–**	**39**	**(694)**	**9,302**
	Carrying amount	**Cost**	**Balance of provision for credit losses**	**Adjustments to fair value yet to be realized[5]**		**Fair value[1]**
				Gains	**Losses**	
(3) Investment in shares not held for trading	**576**	**532**	**–**	**61**	**(17)**	**576**
Of which: Shares for which no fair value is available[6]	341	333	–	8	–	341
Total securities not held for trading	**13,072**	**13,683**	**–**	**100**	**(872)**	**12,911**

Note 5 – Securities – continued

March 31, 2023 (unaudited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost (for shares – cost)	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5]		Fair value[1]
				Gains	Losses	
(4) Bonds held for trading						
of Government of Israel	6,088	6,119	–	–	(31)	6,088
Of foreign governments	111	109	–	2	–	111
Of financial institutions in Israel	1	1	–	–	–	1
Of others in Israel	22	24	–	–	(2)	22
Of others overseas	37	38	–	1	(2)	37
Total bonds held for trading	**6,259**	**6,291**	**–**	**3**	**(35)**	**6,259**
Shares and other securities	17	16	–	3	(2)	17
Total securities held for trading	**6,276**	**6,307**	**–**	**6**	**(37)**	**6,276**
Total securities[2]	**19,348**	**19,990**	**–**	**106**	**(909)**	**19,187**

(5) Additional information about bonds	
Recorded debt balance of	
Impaired bonds accruing interest revenues	–
Impaired bonds not accruing interest revenues	22
	22

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

(2) Of which: Securities pledged to lenders, amounting to NIS 306 million and securities provided as collateral to lenders, amounting to NIS 306 million.

(3) US government bonds.

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

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

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

Remarks:

– For more information about operations involving investments in bonds – see Notes 2.D, 3.A.2 and 3.B. to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.

– The distinction between Israeli and foreign bonds was made in conformity with the country of residence of the authority which issued the security.

Note 5 – Securities – continued

March 31, 2022 (unaudited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost	Balance of provision for credit losses	Adjustments to fair value yet to be recognized		Fair value[1]
				Gains	Losses	
(1) Bonds held to maturity						
of Government of Israel	2,318	2,318	–	32	(40)	2,310
Of financial institutions in Israel	248	248	–	–	(5)	243
Of others in Israel	39	39	–	–	–	39
Total bonds held to maturity	**2,605**	**2,605**	**–**	**32**	**(45)**	**2,592**
	Carrying amount	**Amortized cost**	**Balance of provision for credit losses**	**Cumulative other comprehensive income[4]**		**Fair value[1]**
				Gains	**Losses**	
(2) Bonds available for sale						
of Government of Israel	7,549	7,764	–	56	(271)	7,549
of foreign governments[3]	3,681	3,682	–	3	(4)	3,681
Of financial institutions in Israel	397	414	–	1	(18)	397
Of foreign financial institutions	210	213	–	2	(5)	210
Asset-backed (ABS)	35	34	–	1	–	35
Of others in Israel	682	657	–	38	(13)	682
Of others overseas	234	221	(2)	16	(1)	234
Total bonds available for sale	**12,788**	**12,985**	**(2)**	**117**	**(312)**	**12,788**
	Carrying amount	**Cost**	**Balance of provision for credit losses**	**Adjustments to fair value yet to be realized[5]**		**Fair value[1]**
				Gains	**Losses**	
(3) Investment in shares not held for trading	**704**	**570**	**–**	**137**	**(3)**	**704**
Of which: Shares for which no fair value is available[6]	410	397	–	13	–	410
Total securities not held for trading	**16,097**	**16,160**	**(2)**	**286**	**(360)**	**16,084**

Note 5 – Securities – continued

March 31, 2022 (unaudited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost (for shares – cost)	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5]		Fair value[1]
				Gains	Losses	
(4) Bonds held for trading						
of Government of Israel	770	782	–	3	(15)	770
Of financial institutions in Israel	6	6	–	–	–	6
Of others in Israel	30	29	–	2	(1)	30
Of others overseas	43	43	–	1	(1)	43
Total bonds held for trading	**849**	**860**	**–**	**6**	**(17)**	**849**
Shares and other securities	21	18	–	5	(2)	21
Total securities held for trading	**870**	**878**	**–**	**11**	**(19)**	**870**
Total securities[2]	**16,967**	**17,038**	**(2)**	**297**	**(379)**	**16,954**

(5) Additional information about bonds

Recorded debt balance of	
Impaired bonds accruing interest revenues	1
Impaired bonds not accruing interest revenues	41
	42

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

(2) Of which: Securities pledged to lenders, amounting to NIS 1,089 million and securities provided as collateral to lenders, amounting to NIS 145 million.

(3) US government bonds.

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

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

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

Remarks:

– For more information about operations involving investments in bonds – see Notes 2.D, 3.A.2 and 3.B. to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.

– The distinction between Israeli and foreign bonds was made in conformity with the country of residence of the authority which issued the security.

Note 5 – Securities – continued

As of December 31, 2022 (audited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost	Balance of provision for credit losses	Adjustments to fair value yet to be recognized		Fair value[1]
				Gains	Losses	
(1) Bonds held to maturity						
of Government of Israel	3,034	3,034	–	–	(129)	2,905
Of financial institutions in Israel	390	390	–	–	(19)	371
Of others in Israel	90	90	–	–	(4)	86
Total bonds held to maturity	**3,514**	**3,514**	**–**	**–**	**(152)**	**3,362**
	Carrying amount	**Amortized cost**	**Balance of provision for credit losses**	**Cumulative other comprehensive income[4]**		**Fair value[1]**
				Gains	**Losses**	
(2) Bonds available for sale						
of Government of Israel	4,949	5,470	–	41	(562)	4,949
of foreign governments[3]	1,330	1,367	–	–	(37)	1,330
Of financial institutions in Israel	383	422	–	3	(42)	383
Of foreign financial institutions	262	275	–	–	(13)	262
Asset-backed (ABS)	55	57	–	–	(2)	55
Of others in Israel	838	880	–	17	(59)	838
Of others overseas	217	223	–	5	(11)	217
Total bonds available for sale	**8,034**	**8,694**	**–**	**66**	**(726)**	**8,034**
	Carrying amount	**Cost**	**Balance of provision for credit losses**	**Adjustments to fair value yet to be realized[5]**		**Fair value[1]**
				Gains	**Losses**	
(3) Investment in shares not held for trading	**632**	**584**	**–**	**62**	**(14)**	**632**
Of which: Shares for which no fair value is available[6]	389	380	–	9	–	389
Total securities not held for trading	**12,180**	**12,792**	**–**	**128**	**(892)**	**12,028**

Note 5 – Securities – continued

As of December 31, 2022 (audited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost (for shares – cost)	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5]		Fair value[1]
				Gains	Losses	
(4) Bonds held for trading						
of Government of Israel	2,749	2,804	–	–	(55)	2,749
Of foreign governments	127	127		1	(1)	127
Of financial institutions in Israel	1	1	–	–	–	1
Of others in Israel	25	25	–	1	(1)	25
Of others overseas	42	43	–	–	(1)	42
Total bonds held for trading	**2,944**	**3,000**	**–**	**2**	**(58)**	**2,944**
Shares and other securities	20	18	–	3	(1)	20
Total securities held for trading	**2,964**	**3,018**	**–**	**5**	**(59)**	**2,964**
Total securities[2]	**15,144**	**15,810**	**–**	**133**	**(951)**	**14,992**

(5) Additional information about bonds

Recorded debt balance of	
Impaired bonds not accruing interest revenues	35
	35

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

(2) Of which: Securities pledged to lenders, amounting to NIS 455 million and securities provided as collateral to lenders, amounting to NIS 203 million.

(3) US government bonds.

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

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

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

Remarks:

– For more information about operations involving investments in bonds – see Notes 2.D, 3.A.2 and 3.B. For more information of investments in shares – see Note 3.A.4.

– The distinction between Israeli and foreign bonds was made in conformity with the country of residence of the entity which issued the securities.

Note 5 – Securities – continued

Reported amounts (NIS in millions):

(6) Fair value and unrealized losses, by time period and impairment rate, of bonds available for sale, which include unrealized loss without provision for credit losses:

	Less than 12 months				12 months or more				
	Fair value(1)	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value(1)	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Over 40%	Total
	As of March 31, 2023 (unaudited)								
Bonds available for sale									
of Government of Israel	3,469	75	12	87	2,732	293	127	26	446
of foreign governments(2)	1,301	6	–	6	49	5	–	–	5
Of financial institutions in Israel	86	7	–	7	314	39	–	–	39
Of foreign financial institutions	148	3	–	3	66	8	–	–	8
Asset-backed (ABS)	–	–	–	–	56	3	–	–	3
Of others in Israel	533	41	–	41	254	27	9	1	37
Of others overseas	82	–	–	–	83	7	5	–	12
Total bonds available for sale	**5,619**	**132**	**12**	**144**	**3,554**	**382**	**141**	**27**	**550**
	As of March 31, 2022 (unaudited)								
Bonds available for sale									
of Government of Israel	2,173	86	–	86	2,226	185	–	–	185
of foreign governments(2)	2,327	1	–	1	44	3	–	–	3
Of financial institutions in Israel	365	18	–	18	–	–	–	–	–
Of foreign financial institutions	92	5	–	5	–	–	–	–	–
Of others in Israel	260	13	–	13	–	–	–	–	–
Of others overseas	21	1	–	1	–	–	–	–	–
Total bonds available for sale	**5,238**	**124**	**–**	**124**	**2,270**	**188**	**–**	**–**	**188**
	As of December 31, 2022 (audited)								
Bonds available for sale									
of Government of Israel	1,271	79	28	107	2,891	331	100	24	455
Of foreign governments(2)	1,207	32	–	32	47	5	–	–	5
Of financial institutions in Israel	183	19	–	19	191	23	–	–	23
Of foreign financial institutions	208	6	–	6	38	6	1	–	7
Asset-backed (ABS)	55	2	–	2	–	–	–	–	–
Of others in Israel	606	47	–	47	60	9	3	–	12
Of others overseas	106	1	4	5	40	2	4	–	6
Total bonds available for sale	**3,636**	**186**	**32**	**218**	**3,267**	**376**	**108**	**24**	**508**

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

(2) US government bonds.

Note 5 – Securities – continued

Reported amounts (NIS in millions):

(7) Asset-backed and mortgage-backed securities

	Carrying amount	Amortized cost	Cumulative other comprehensive income		Fair value
			Gains	Losses	
	As of March 31, 2023 (unaudited)				
Asset-backed bonds (ABS)	56	59	–	(3)	56
Total asset-backed bonds available for sale	**56**	**59**	**–**	**(3)**	**56**
	As of March 31, 2022 (unaudited)				
Asset-backed bonds (ABS)	35	34	1	–	35
Total asset-backed bonds available for sale	**35**	**34**	**1**	**–**	**35**
	As of December 31, 2022 (audited)				
Asset-backed bonds (ABS)	55	57	–	(2)	55
Total asset-backed bonds available for sale	**55**	**57**	**–**	**(2)**	**55**

Note 6 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[(1)], bonds held to maturity and available for sale, loans to the public and balance of provision for credit losses

	March 31, 2023 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Recorded debt balance[(1)]						
reviewed on individual basis	76,446	–	351	76,797	32,470	109,267
reviewed on group basis	13,547	198,901	26,171	238,619	–	238,619
Total debts	**89,993**	**[(2)]198,901**	**26,522**	**315,416**	**32,470**	**347,886**
Of which:						
Non-accruing debts	1,146	1,506	53	2,705	–	2,705
Debts in arrears 90 days or longer	39	–	47	86	–	86
Other problematic debts	1,298	–	116	1,414	–	1,414
Total problematic debts	**2,483**	**1,506**	**216**	**4,205**	**–**	**4,205**
Balance of provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	1,194	–	10	1,204	1	1,205
reviewed on group basis	415	939	539	1,893	–	1,893
Total provision for credit losses	**1,609**	**939**	**549**	**3,097**	**1**	**3,098**
Of which: With respect to non-accruing debts	**233**	**75**	**45**	**353**	**1**	**354**
Of which: With respect to other problematic debts	**290**	**–**	**61**	**351**	**–**	**351**

	March 31, 2022 (unaudited)					
Recorded debt balance:						
reviewed on individual basis	64,685	–	497	65,182	23,108	88,290
reviewed on group basis	13,212	182,225	24,838	220,275	–	220,275
Total debts	**77,897**	**[(2)]182,225**	**25,335**	**285,457**	**23,108**	**308,565**
Of which:						
Non-accruing debts	1,080	[(3)]1,472	59	2,611	–	2,611
Debts in arrears 90 days or longer	37	–	25	62	–	62
Other problematic debts	657	[(3)]-	116	773	–	773
Total problematic debts	**1,774**	**1,472**	**200**	**3,446**	**–**	**3,446**
Balance of provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	932	–	6	938	1	939
reviewed on group basis	427	779	396	1,602	–	1,602
Total provision for credit losses	**1,359**	**779**	**402**	**2,540**	**1**	**2,541**
Of which: With respect to non-accruing debts	**261**	**[(3)]73**	**17**	**351**	**1**	**352**
Of which: With respect to other problematic debts	**117**	**[(3)]-**	**19**	**136**	**–**	**136**

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

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 12,749 million (as of March 31, 2022 – NIS 11,284 million).

(3) Reclassified.

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions):

A. Debts[1], bonds held to maturity and available for sale, loans to the public and balance of provision for credit losses – continued

	As of December 31, 2022 (audited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Recorded debt balance:						
reviewed on individual basis	73,817	–	407	74,224	30,560	104,784
reviewed on group basis	13,160	196,840	26,132	236,132	–	236,132
Total debts	**86,977**	**[2]196,840**	**26,539**	**310,356**	**30,560**	**340,916**
Of which:						
Non-accruing debts	1,193	1,329	55	2,577	–	2,577
Debts in arrears 90 days or longer	69	–	44	113	–	113
Other problematic debts	1,136	–	123	1,259	–	1,259
Total problematic debts	**2,398**	**1,329**	**222**	**3,949**	**–**	**3,949**
Balance of provision for credit losses with respect to debts:						
reviewed on individual basis	1,106	–	12	1,118	1	1,119
reviewed on group basis	385	897	484	1,766	–	1,766
Total provision for credit losses	**1,491**	**897**	**496**	**2,884**	**1**	**2,885**
Of which: With respect to non-accruing debts	**199**	**67**	**42**	**308**	**1**	**309**
Of which: With respect to other problematic debts	**257**	**–**	**60**	**317**	**–**	**317**

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

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 12,566 million.

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions):

B. Change in balance of provision for credit losses

	For the three months ended March 31, 2023 (Unaudited)					
	Provision for credit losses					
	Loans to the public				Banks, governments and bonds	Total
	Commercial	Housing	Individual – other	Total		
Balance of provision for credit losses at start of period	1,690	902	512	3,104	1	3,105
Expenses with respect to credit losses	100	42	85	227	–	227
Accounting write-offs[1]	(53)	–	(54)	(107)	–	(107)
Collection of debts written off for accounting purposes in previous years[1]	29	–	25	54	–	54
Net accounting write-offs	(24)	–	(29)	(53)	–	(53)
Balance of provision for credit losses at end of period	**1,766**	**944**	**568**	**3,278**	**1**	**3,279**
Of which: With respect to off balance sheet credit instruments	**157**	**5**	**19**	**181**	**–**	**181**

	For the three months ended March 31, 2022 (Unaudited)					
Balance of provision for credit losses at start of period	1,256	804	254	2,314	1	2,315
Opening balance adjustment for effect of initial application of public reporting directives with regard to expected credit losses[2]	275	(32)	149	392	–	392
Expenses with respect to credit losses	51	14	14	79	–	79
Accounting write-offs[1]	(38)	–	(35)	(73)	–	(73)
Collection of debts written off for accounting purposes in previous years[1]	30	–	23	53	–	53
Net accounting write-offs	(8)	–	(12)	(20)	–	(20)
Other[3]	(23)	1	10	(12)	–	(12)
Balance of provision for credit losses at end of period	**1,551**	**787**	**415**	**2,753**	**1**	**2,754**
Of which: With respect to off balance sheet credit instruments	**192**	**8**	**13**	**213**	**–**	**213**

(1) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of customers being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large non-accruing debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

(2) Including with respect to residential mortgages of insignificant amount.

(3) Movement in provision for credit losses in subsidiary, primarily attributed to cost of acquisition upon initial consolidation, and is therefore not included on the consolidated balance sheet.

Note 7 – Deposits from the Public

Reported amounts (NIS in millions):

a. Deposit types by location solicited and depositor type

	March 31		December 31
	2023	2022	2022
		(Unaudited)	(Audited)
In Israel			
On-call			
Non interest-bearing	79,782	105,523	88,270
Interest-bearing	35,609	49,073	43,428
Total on-call	**115,391**	**154,596**	**131,698**
Term deposits	222,486	153,544	204,829
Total deposits in Israel(1)	**337,877**	**308,140**	**336,527**
Outside of Israel			
On-call			
Non interest-bearing	464	485	409
Interest-bearing	93	29	66
Total on-call	**557**	**514**	**475**
Term deposits	10,035	3,999	7,512
Total deposits overseas	**10,592**	**4,513**	**7,987**
Total deposits from the public	**348,469**	**312,653**	**344,514**
(1) Includes:			
Deposits from individuals	**154,192**	**142,040**	**151,578**
Deposits from institutional investors	**78,150**	**63,118**	**75,938**
Deposits from corporations and others	**105,535**	**102,982**	**109,011**

b. Deposits from the public by size

	March 31		December 31
	2023	2022	2022
		(Unaudited)	(Audited)
Maximum deposit (NIS in millions)			
Up to 1	104,349	95,831	99,561
Over 1 to 10	87,536	80,011	86,771
Over 10 to 100	42,993	44,551	46,517
Over 100 to 500	35,451	34,872	35,348
Above 500	78,140	57,388	76,317
Total	**348,469**	**312,653**	**344,514**

Note 8 – Employees' Rights

Description of benefits

1. Employment terms of the vast majority of Bank Group employees and managers are determined by provisions of collective bargaining agreements. Pension liabilities to these employees, except for Bank Yahav employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the 2022 financial statements.
2. Remuneration policy for Bank officers and for all Bank employees other than officers
For more information about remuneration policy for Bank officers and remuneration policy for all Bank employees other than officers, see Note 22 to the 2022 financial statements.
3. On March 30, 2023, two agreements were signed that govern matters of onboarding and assignment of regular employees and trainees at the former Union Bank, their onboarding conditions, principles for pay conversion, bonuses, insurance coverage, pension rights, representations of the Associations and provisions for transition and performance. The parties to the agreement are Mizrahi Tefahot Employees' Association and Managers' Association (one agreement with the Employees' Association at the Bank; and another – with the Manager's Association at the Bank), the Labor Union, the Association of Former Union Bank Employees and the Association of Former Union Bank Managers and Authorized Signatories.
4. An extraordinary General Meeting of Bank shareholders, held on April 19, 2023, approved payment of an additional bonus for 2022, other than in conformity with the Bank's remuneration policy, amounting to NIS 350 thousand, to each of the following officers: Ms. Ayala Hakim and Mr. Ofir Morad.
5. Net benefit cost components recognized in profit and loss with respect to defined benefit and defined contribution pension plans (NIS in millions):

	For the three months ended March 31		For the year ended December 31
	2023	**2022**	**2022**
		(Unaudited)	**(Audited)**
Under payroll and associated expenses			
Cost of service[(1)]	17	21	83
Under other expenses			
Cost of interest[(2)]	20	16	70
Expected return on plan assets[(3)]	(5)	(4)	(20)
Deduction of non-allowed amounts:			
Net actuarial loss[(4)]	8	18	62
Total under other expenses	23	30	112
Total benefit cost, net	**40**	**51**	**195**
Total expense with respect to defined-contribution pension	79	76	190
Total expenses recognized in profit and loss	**119**	**127**	**385**

	Forecast	**Actual deposits**		
	For[(5)]	**For the three months ended March 31**		**For the year ended December 31**
	2023	**2023**	**2022**	**2022**
			(Unaudited)	**(Audited)**
Deposits	5	3	3	8

(1) Cost of service is the current accrual of the future employee benefit in the period.
(2) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.
(3) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.
(4) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.
(5) Estimated contributions expected to be paid into defined-benefit pension plans through 2023.

Note 9 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

A. Capital adequacy

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy"

		As of March 31	As of December 31
	2023	**2022**	**2022**
		(Unaudited)	**(Audited)**
1. Consolidated data			
a. Capital for purpose of calculating the capital ratio			
Tier I equity[1]	26,001	22,650	25,072
Tier I capital[1]	26,001	22,650	25,072
Tier II capital	8,262	7,664	8,015
Total capital	**34,263**	**30,314**	**33,087**
b. Weighted risk asset balances			
Credit risk	237,871	209,711	234,383
Market risks	1,387	2,446	1,301
Operational Risk	17,616	14,144	16,567
Total weighted risk asset balances	**256,874**	**226,301**	**252,251**
c. Ratio of capital to risk components			
			In %
Ratio of Tier I equity to risk components	10.12	10.01	9.94
Ratio of Tier I capital to risk components	10.12	10.01	9.94
Ratio of total capital to risk components	13.34	13.40	13.12
Minimum Tier I equity ratio required by Supervisor of Banks[2]	9.60	9.61	9.60
Total minimum capital ratio required by the Supervisor of Banks[2]	12.50	12.50	12.50
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Ratio of Tier I equity to risk components	10.80	9.87	10.51
Ratio of Tier I capital to risk components	10.80	9.87	10.51
Ratio of total capital to risk components	13.73	13.48	13.45
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	12.50	12.50	12.50

(1) These data include supervisory adjustments with respect to the following: Streamlining programs, charged equally over 5 years as from the start date thereof, effect of initial application of accounting principles with regard to expected credit losses and with respect to initial application of the Bank of Israel circular regarding weighting of loans subject to increased risk for purchase of land. For more information see section A.3 and A.4.

(2) An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance as of the report date. For more information see section F above.

Note 9 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

a. Capital adequacy – continued

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy" – continued

		As of March 31	As of December 31
	2023	2022	2022
		(Unaudited)	(Audited)
3. Capital components for calculating the capital ratio (on consolidated data)			
a. Tier I equity			
Shareholder's equity	25,982	22,184	24,868
Differences between shareholders' equity and Tier I equity	(581)	(478)	(543)
Tier I equity before regulatory adjustments and deductions	**25,401**	**21,706**	**24,325**
Supervisory adjustments and deductions:			
Goodwill and intangible assets	(142)	(162)	(147)
Deferred tax assets	–	–	–
Supervisory adjustments and other deductions(1)	554	811	612
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan before adjustments for expected credit losses – Tier I equity	**412**	**649**	**465**
Total adjustments with respect to the streamlining program	11	28	15
Total adjustments for expected credit losses	177	267	267
Total Tier I equity after supervisory adjustments and deductions	**26,001**	**22,650**	**25,072**
b. Tier II capital			
Tier II capital: Instruments, before deductions	5,496	5,535	5,437
Tier II capital: Provisions, before deductions	2,904	2,336	2,785
Total Tier II capital, before deductions	**8,400**	**7,871**	**8,222**
Deductions:			
Deductions – Total adjustments for expected credit losses	(138)	(207)	(207)
Total Tier II capital	8,262	7,664	8,015
Total capital	**34,263**	**30,314**	**33,087**

4. Effect of adjustments with respect to streamlining plan, expected credit losses and loans subject to increased risk for land purchase on Tier I capital ratio:

		As of March 31	As of December 31
	2023	2022	2022
			In %
Ratio of capital to risk components			
Ratio of Tier I equity to risk components, before effect of adjustments	10.03	9.86	9.78
Effect of adjustments with respect to the streamlining plan	–	0.02	–
Effect of adjustments for expected credit losses	0.08	0.13	0.12
Effect of adjustments with respect to loans subject to increased risk for land purchase	0.01	–	0.04
Ratio of Tier I equity to risk components	10.12	10.01	9.94

(1) Includes deferred credit balance from acquisition of Union Bank.

Note 9 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

B. Leverage ratio

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of March 31		As of December 31
	2023	2022	2022
	(Unaudited)		(Audited)
1. Consolidated data			
Tier I capital[1]	26,001	22,650	25,072
Total exposure	469,925	426,244	463,010
	In %		
Leverage ratio	5.53	5.31	5.42
Minimum leverage ratio required by the Supervisor of Banks[2]	4.50	4.50	4.50
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	6.22	5.59	6.08
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50	4.50

(1) This data includes adjustments with respect to streamlining plans and adjustments with respect to initial application of accounting principles for expected credit losses, see sections A.3 and A.4 above.

(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

C. Liquidity coverage ratio

Calculated in accordance with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio"

	As of March 31		As of December 31
	2023	2022	2022
	(Unaudited)		(Audited)
	In %		
1. Consolidated data			
Liquidity coverage ratio[1]	126	120	118
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
2. Bank data			
Liquidity coverage ratio[1]	127	118	118
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
3. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Liquidity coverage ratio[1]	218	173	209
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100

(1) In terms of simple average of daily observations during the reported quarter.

Note 9 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

D. Minimum net stable funding ratio required by directives of the Supervisor of Banks

As from December 31, 2021, the Bank applies Proper Conduct of Banking Business Directive 222 concerning "Net stable funding ratio (NSFR)", which adopts the Basel Committee recommendation with regard to net stable funding ratio in the banking system in Israel. In conformity with this directive, the objective of the net stable funding ratio is to improve stability of the liquidity risk profile of banking corporations over the long term, by requiring banking corporations to maintain a stable funding profile in conformity with the composition of on-balance sheet assets and off-balance sheet operations. The net stable funding ratio consists of two components: available stable funding items (numerator) and required stable funding items (denominator). "Available stable funding" is defined as the part of capital and liabilities that may be relied upon over the time horizon taken into account in the net stable funding ratio, of one year. The required stable funding amount for a given corporation is based on the liquidity attributes and time to maturity of various assets held by the corporation, as well as of off-balance sheet exposures.

Pursuant to the directive, the minimum net stable funding ratio required is 100%.

The net stable funding ratio for significant banking subsidiaries in Israel is calculated in conformity with Proper Conduct of Banking Business Directive 222 "Net stable funding ratio". Net stable funding ratio in significant overseas banking corporations is presented and calculated in conformity with relevant directives in each jurisdiction, if specified.

	March 31, 2023	December 31, 2022
	(Unaudited)	(Audited)
		In %
(1) On consolidated data		
Net stable funding ratio	113	115
The minimum net stable funding ratio required by the Supervisor of Banks	100	100
(2) Significant subsidiaries		
Bank Yahav		
Net stable funding ratio	156	156
The minimum net stable funding ratio required by the Supervisor of Banks	100	100

Factors which may materially affect the net stable funding ratio

Net stable funding ratio on consolidated basis as of March 31, 2023 was 113%. Volatility of this ratio throughout the quarter was low; the main factors affecting the net stable funding ratio are: composition of Bank sources and uses by financing term, financing type and counter party. On the sources side – long-term liabilities are more stable than short-term liabilities, and funding from retail customers and small businesses is more stable than wholesale funding with the same maturity. When long-term sources grow shorter on a large scale (such as with subordinated notes) to a term shorter than one year, this factor affects the resulting ratio; however, because this is a funding source which typically has scattered maturities, the impact on the resulting ratio is not material. On the uses side – asset type, asset term and quality and liquidity value determine the required stable funding amount.

E. Basel III

As from January 1, 2014, the Bank applies Proper Conduct of Banking Business Directives 201-211 with regard to capital measurement and adequacy, as amended to align them with Basel III directives.

The Basel III directives stipulated significant changes to calculation of regulatory capital requirements, including with regard to the following:

- Supervisory capital components
- Deductions from capital and supervisory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk with respect to impaired debt
- Capital allocation with respect to CVA risk

Note 9 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

These regulations are applied gradually, in line with transitional provisions specified in Proper Conduct of Banking Business Directive 299 with regard to "Capital measurement and adequacy – Supervisory capital – Transitional provisions", in order to allow for compliance with new supervisory capital requirements in applying Basel III and to specify a transition period pending full application. The transition provisions refer, *inter alia*, to supervisory adjustments and deductions from capital, and to capital instruments not qualifying for inclusion in supervisory capital, in conformity with the new criteria stipulated in Basel directives. In particular, in conformity with transition provisions, supervisory adjustments and deductions from capital, and non-controlling interest not qualifying for inclusion in supervisory capital were gradually deducted from capital, at 20% in each year from January 1, 2014 through January 1, 2018. Capital instruments no longer qualifying as supervisory capital were recognized up to a cap of 80% on January 1, 2014, and this cap is reduced by a further 10% in each subsequent year through January 1, 2022. Conseqently, as from January 1, 2022, transition provisions expired and non-qualifying capital instruments may no longer be recognized in supervisory capital.

F. Ratio of capital to risk components

As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. Calculation of total capital and total risk components is set forth in the directives.

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

On December 27, 2021, the Supervisor of Banks issued a circular revising Proper Conduct of Banking Business Directive 329 with regard to "Restrictions on residential mortgages", whereby the additional capital requirement at 1 percentage point would only apply to residential mortgages and would not apply to residential mortgages other than for purchasing interest in real estate and by mortgage on an apartment (hereinafter: "General-purpose loan").

Accordingly, the minimum Tier I equity ratio required of the Bank as of the reporting date is 9.60%, and the minimum total capital ratio required of the Bank as of the reporting date is 12.50% (to which appropriate safety margins would be added).

G. Circular regarding update to Proper Conduct of Banking Business Directive 203 "Capital measurement and adequacy" – Standard approach – credit risk

On May 22, 2022, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 203 ("Capital measurement and adequacy – Standard approach – Credit risk"), designed to address exposure to the construction and real estate sector.

According to the circular, loans designated for purchase of land for development or construction, with an LTV higher than 80% of the purchased property value, shall carry an increased risk weighting of 150%, except for loans for purchase of agricultural land with no planning horizon or intention to apply for re-zoning, and except for loans designated for purchase of land for own use by the borrower, who is not classified under the Construction and Real Estate sector, based on sector classification in Supervisory Reporting Directive 831 "Total credit risk by economic sector".

The directive applies as from June 30, 2022, but the Bank may apportion the impact of change in risk weighting on the capital adequacy ratio with respect to the current loan portfolio as of June 30, 2022 in equal quarterly rates, from September 30, 2022 through June 30, 2023.

As of March 31, 2023, there was no material impact on the capital adequacy ratios, as is the case later in the attribution cycle.

Note 9 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

H Leverage ratio

On April 28, 2015, the Supervisor of Banks issued a new Proper Conduct of Banking Business Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.
The leverage ratio is reflected in percent, defined as the ratio of Tier I capital according to Basel rules to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives, to financing transactions for securities and off-balance sheet items.

According to the directive, banking corporations must maintain a leverage ratio of 5% or higher on a consolidated basis.
On November 15, 2020, the Supervisor of Banks issued a circular regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", updating Proper Conduct of Banking Business Directive 250, whereby the leverage ratio shall be at least 4.5% on consolidated basis, compared to 5% prior to this change. On May 15, 2022, the Supervisor of Banks issued another circular, whereby this relief shall apply through June 30, 2024, provided that the leverage ratio would be no less than the leverage ratio as of December 31, 2023, or the minimum leverage ratio applicable to the banking corporation prior to the Interim Directive, whichever is lower.

I. For more information about dividends, see "Condensed Statements of Changes in Shareholders' Equity" and Note 16

J. For more information about directives and instructions by the Supervisor of Banks with regard to capital adequacy, see Note 25 to the 2022 financial statements.

Note 10 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

		March 31	December 31
	2023	2022	2022
		(Unaudited)	(Audited)
1. Computerization and software service contracts	361	413	313
2. Acquisition and renovation of buildings	201	18	221

3. Credit sales operations

The following table provides a summary of credit sales operations at the Bank:

	For the three months ended March 31		For the year ended December 31
	2023	2022	2022
		(Unaudited)	(Audited)
Carrying amount of credit sold	25	–	1,903
Total consideration	25	–	1,943
Obligation to Service – expense with respect to operational services	–	–	32
Total net gain with respect to credit sold	–	–	8

B. Contingent liabilities and other commitments

1. For more information about contingent liabilities and other commitments by the Bank Group, see Note 26 to the 2022 financial statements. Below is a description of material changes from the Note included in the 2022 financial statements.

2. Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims (for claims brought against the Bank) and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

   Below are details of significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity which had developments and changes from the description in the 2022 financial statements:

   A) In May 2016, the Bank received a claim and motion for approval of class action status, alleging unlawful over-charging of commissions to customers eligible to be classified as a small business, in breach of the Bank's duties in its relations with customers.

      The plaintiff claims that the Bank has not disclosed to customers who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at their expense.

      The plaintiff estimates the damage at NIS 220 million.

      The hearing of this motion is concurrently with 5 motions filed against 5 other banks. Evidential hearings in this case started in March 2023.

   B) In December 2017, the Bank received a claim and motion for approval of class action status filed against the Bank, amounting to NIS 124 million. The claim involves setting of the interest rate on residential mortgages bearing bond-based adjustable interest. The plaintiffs allege that the Bank issues an approval in principle to the customer, listing the bond base as the only mechanism for interest calculation in the adjustable interest track – bonds for the term of the loan. However, the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It was further alleged that the condition specified by the Bank in the agreement for activation of the emergency defensive provision is unfair and provides the Bank with an unreasonable advantage over the customers.

      On March 8, 2023, a verdict was handed down, confirming the settlement agreement reached by the parties.

Note 10 – Contingent Liabilities and Special Commitments – continued

C) In September 2018, the Bank received a claim and motion for approval of class action status amounting to NIS 180 million (estimated).

The motion alleges over-charging of commission upon early repayment of residential mortgages consisting of multiple tracks, some of which have generated positive capitalization differences and some of which have generated negative capitalization differences, where the Bank fails to offset the capitalization differences of the different tracks against each other, allegedly in contravention of provisions of the Banking Ordinance (Early repayment of residential mortgage), 2002.

The hearing of this case is consolidated with similar motions filed against other banks on the same matter. The parties agreed to submit the case for mediation. Therefore, the parties are in mediation proceeding and at this stage, evidentiary hearings have been cancelled.

D) In December 2018, the Bank received a claim and motion for class action status amounting to NIS 280 million, filed against the Bank, Bank Leumi, Bank HaPoalim, Bank Discount and against insurance companies Harel, HaPhoenix and Menorah, alleging unlawful over-charging of insurance premium for superfluous insurance policies issued to the building owner, even though at the time of their issue, the same or another insurance company already had issued insurance policies covering the same building for the same period.

The plaintiffs set the total damage, jointly and severally, at NIS 280 million.

On February 10, 2023, the parties filed an agreed motion with the Court, seeking approval for the plaintiff to withdraw the motion for approval of class action status against the Bank. On February 19, 2023, the motion to withdraw by the plaintiff was approved.

E) In May 2020, the Bank received a motion for approval of class action status, alleging breach of duty of confidentiality, by the Bank providing various identifiable information to international information corporations, and in particular to Facebook, allowing them to gather private information about Bank customers, allegedly in breach of provisions of the Privacy Protection Law, 1981 and other statutes, without providing required disclosure to Bank customers and without obtaining their consent. The plaintiff alleges that the Bank uses third-party tools, such as those of Facebook and Google, to monitor its customers when transacting on Bank web sites and apps, in order to conduct advertising campaigns. The plaintiff further alleges that all conditions listed in Bank documents, allowing the Bank to provide information about its customers to third parties constitute unfair conditions in a uniform contract.

The plaintiff allegedly is unable to quantify the total damage to the class.

At a hearing of this case, consolidated with 3 other claims filed in the same matter against 3 other banks, the Court stated its intention to ask for the Supervisor of Banks' position.

F) In April 2021, the Bank received a motion for class action status filed against the Bank and 14 other defendants (other banks and financial institutions, hereinafter: "the defendants"), alleging transfer of private information to third parties while browsing the "Personal Zone" on websites and apps operated by the defendants, allegedly in violation of privacy and allegedly in breach of provisions of the Privacy Protection Law, Banking Rules and multiple other obligations imposed on the defendants.

The plaintiffs allege that the Personal Zone includes private, confidential information which is provided to third parties without express consent of the customers – and in particular to Google and its advertising service. This is done, *inter alia*, in conjunction with the Bank's use of Google's Google Analytics service. The plaintiff did not state the class damage amount. However, they estimate that monetary and non-monetary damage incurred by each class member amounts to NIS 2,000.

The parties are in mediation proceeding.

G) In February 2022, the Bank received a motion for class action status, filed against the Bank and 9 other banks and against 2 private companies that operate, independently or by franchise, non-bank ATMs ("the motion"). The motion concerns cash withdrawals from customeraccounts at the defendant banks, made through non-banking ATMs operated by public companies.

The motion alleges, inter alia, that banks charge their customers an additional commission without full disclosure and allegedly unlawfully, for cash withdrawals made through private / non-banking ATMs, in addition to the commission paid to the private companies that operate these ATMs.

Note 10 – Contingent Liabilities and Special Commitments – continued

It is further alleged that these actions are in violation of the banks' statutory obligation to provide proper service to all customers, including those in areas where the bank branch had been closed (for the Bank, the motion noted that the Bank does not act to close branches); the scope of deployment of bank ATMs does not provide a solution for the entire population and for all bank customers. The damage to the class, according to the motion, was set at NIS 458 million in total against all defendants, with the plaintiff allowing the Court discretion in allocating liability among the defendants.

As ruled by the Court, on February 8, 2023 the Supervisor of Banks filed their position, whereby an issuer bank may charge a direct channel fee for withdrawal from a non-bank ATM, even if the private ATM does not present the customer with the exact fee to be charged by the Bank, and in this regard, general disclosure on the ATM screen that a further fee would be charged by the Bank is sufficient.

H) In April 2022, the Bank received a motion for approval of class action status concerning double charging of commission, allegedly unlawfully, in an exchange transaction of two foreign currencies, and absence of proper disclosure about these charges in the conversion differences.

As for the charging of a transaction commission, the plaintiff alleged that for conversion between two foreign currencies the Bank charges two transaction commissions (a sale transaction - conversion from one currency to NIS, and a buy transaction - conversion from NIS to the other currency), even though according to them, there was actually a single exchange transaction executed from one foreign currency to the other. As for the charging of conversion differences, the plaintiff alleged that the Bank does not disclose to the customer in advance, neither in the price list nor in the booklet "General terms and conditions for account management", the exact charging of conversion differences that would apply to the transaction.

The plaintiff noted that they were unable to accurately estimate the damage incurred by class members.

On December 2, 2022, a verdict was handed down, rejecting out of hand the motion for approval of class action status.

On January 18, 2023, the plaintiff appealed this verdict to the Supreme Court.

I) In September 2022, the Bank received a motion for approval of class action status, with no estimated amount. The motion concerns allegations regarding the Bank website, which the plaintiff alleges is in breach of provisions of Section 5(c) of the Banking Law (Customer service), 1981. Allegedly, the Bank presents on its marketing website diverse loans for different purposes, and encourages Bank customers to take out loans, without displaying the warning allegedly mandated by Section 5(c) of the Banking Law, whereby "Failure to make loan repayments may result in arrears interest charges and in debt collection proceedings".

The plaintiff seeks, *inter alia*, a remedy instructing the Bank to reimburse class members the arrears interest charged and payments added to debt principal as part of debt collection proceedings, plus linkage differentials and interest from the charge date through the actual payment date.

On March 26, 2023, the Court handed down a verdict approving the parties motion for the plaintiff to withdraw the motion for approval of class action status.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 2 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 79 million.

Note 10 – Contingent Liabilities and Special Commitments – continued

3) Motions for class action status are pending against the Bank and its subsidiaries, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, hence no provision was made for these.

   A. In April 2022, the Bank received a motion for approval of class action status, with no estimated amount, alleging unlawful charging of a file opening commission upon loan origination, with this commission being "disguised interest", in breach of the Fair Credit Law, 1993 and in violation of provisions of Regulation 3 of the Non-bank Loan Regulations (Exclusion of credit transaction types from the scope of the law and exclusion of expenses from the scope of "addition"), 2019.
   Given the verdict, which denied a motion for class action status filed with a similar cause against a non-bank lender, after discussing issues similar to the above motion (including interpretation of Amendment 5 to the Fair Credit Law, 1993 and regulations based there upon, as well as the issue of "hidden interest"), on September 22, 2022 the Court granted a stay of proceedings in this case, pending a ruling by the Supreme Court in an appeal filed by the aforementioned non-bank lender.

   B. In November 2022, the Bank received a motion for approval of class action lawsuit concerning revision of interest rates in conformity with agreements for residential mortgages in the variable interest track based on bonds as an anchor (yield of Government bonds), alleging that this creates an unfair advantage for the Bank at the expense of borrowers, and that the condition stipulated in such agreements, whereby the change in anchor would only apply "on condition that the sum of these components shall not be less than 0%" constitutes, allegedly, a discriminatory condition in a uniform contract, as defined in Section 2 of the Uniform Contract Law, 1982.
   The motion does not indicate the alleged damage incurred.
   The deadline for filing the Bank's response is May 16, 2023.

4) Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries thereof, as follows:

   A. In September 2020, the Bank received a motion for approval of a derivative lawsuit filed by a heir of a shareholder on behalf of the Company for Economic and Cultural Enterprises for State Employees Ltd. ("Economic Enterprises Company") and on behalf of Bank Yahav for Government Employees Ltd. ("Bank Yahav") against Bank Yahav, the Bank, Board members of the Economic Enterprises Company and of Bank Yahav, including officers of the Bank.
   The plaintiff alleges that Bank Yahav and the Economic Enterprises Company incurred damage due to credit extended by Bank Yahav to the Bank, by way of deposits with the Bank, allegedly in violation of the Law and in breach of fiduciary and care duties of the defendants towards Bank Yahav and towards the Economic Enterprises Company. The claimed damage for Bank Yahav is over NIS 1 billion.
   On March 21, 2023, the Court ordered the defendants in the motion for approval to file their summations with regard to the pre-trial question of the plaintiff's right to file the motion for approval of a derivative lawsuit, considering their position as a heir not registered as a shareholder of the Economic Enterprises Company, and the nature of the share held by the bequeather. On April 27, 2023, the Bank filed its summation regarding preliminary issues of the plaintiff's right to file the motion for approval.

Note 10 – Contingent Liabilities and Special Commitments – continued

B. This proceeding started with a motion for document discovery filed in December 2016, pursuant to Section 198a. of the Corporate Law, 1999, filed with the Tel Aviv District Court ("the Motion for Discovery"), whereby the Court was asked to instruct Union Bank to divulge documents with regard to credit extended by Union Bank to a major borrower (who is in insolvency proceedings) and to others whose debt is personally guaranteed by the borrower (hereinafter: "Credit"). On August 6, 2017 the Court approved a litigation agreement whereby proceedings in this case would be delayed, so as to allow the independent claim committee, which the Union Bank Board of Directors resolved to establish, to discuss this matter and for the Board of Directors to discuss the committee's recommendations. After the Committee has concluded its work and after the Union Bank Board of Directors discussed and adopted its recommendations, the parties conducted a mediation proceeding which was unsuccessful. Therefore, on September 25, 2019, the plaintiff filed a motion for approval of a derivative lawsuit (hereinafter: "the motion") against 20 individual defendants who, allegedly, serve or have served as Board members of Union Bank. The motion concerns, allegedly, loans extended to the major borrower in 2004-2008, with no collateral or with collateral that only partially covers his debt, with negligent discretion exercised and apparent indifference. It further alleged that Union Bank and officers took no action to recover Union Bank's money. The plaintiff alleges that the defendants caused Union Bank to incur damage, by their negligence, amounting to NIS 125 million, taking into account the receipts to be collected in the insolvency proceedings of the major borrower.

Union Bank joined the motion for approval of a derivative lawsuit as defendant, and filed their response to the motion on May 24, 2020.

As resolved by the Union Bank Board of Directors on December 31, 2020, negotiations were conducted with the attorneys of the insurers, the Board members and others as required, designed to exhaust the options for reaching a settlement agreement. Union Bank informed the Court from time to time about developments in the negotiations, and the Court allowed Union Bank to exhaust the negotiations between the parties.

On March 28, 2022, after agreement in principle has been reached on the settlement agreement, the Union Bank Board of Directors, convened in an un-tainted forum, resolved to approve signing by the Bank of a settlement agreement reached with the officers and insurers of the Board member and officer liability insurance policy; On April 14, 2022, this settlement agreement was filed for approval by the Court.

On July 18, 2022, the Attorney General filed their position, whereby the motion for approval of the settlement agreement should be denied, due to the way in which it has been achieved (with objection of the plaintiff). On September 29, 2022.

On March 16, 2023, Bank Mizrahi Tefahot, after completion of the Union Bank merger there with and there into on December 29, 2022, filed a motion seeking a ruling on the format for filing the motion for approval of the settlement agreement.

On March 17, 2023, the Court ruled that proceeding by direct discussion between the parties would be most beneficial for resolution of the proceeding and for early resolution of the dispute, to the extent possible – agreed to by all parties involved. Therefore, a hearing was scheduled for June 7, 2023.

Note 10 – Contingent Liabilities and Special Commitments – continued

C. Guarantees by maturity date

The Bank provides a wide range of guarantees and indemnification to its customers, to allow them to conduct a wide range of transactions. The maximum amount of potential future payments is determined based on the amount stated in the guarantee, without accounting for any potential refunds or collateral helped or pledged. Most guarantees at the Bank are rated by credit performance rating.

The following are guarantees issued by the Bank, by maturity date:

					As of March 31, 2023 (unaudited)
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	2,793	595	82	118	3,588
Guarantees to home buyers	11,061	5,838	172	458	17,529
Guarantees and other commitments	5,198	1,321	522	5,410	12,451
Commitments to issue guarantees	3,381	5,397	94	–	8,872
Total guarantees	**22,433**	**13,151**	**870**	**5,986**	**42,440**

					As of March 31, 2022 (unaudited)
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	2,527	494	117	158	3,296
Guarantees to home buyers	10,563	4,891	677	1,535	17,666
Guarantees and other commitments	4,745	1,714	188	4,352	10,999
Commitments to issue guarantees	2,538	5,800	1,409	–	9,747
Total guarantees	**20,373**	**12,899**	**2,391**	**6,045**	**41,708**

					As of December 31, 2022 (audited)
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	2,535	797	88	111	3,531
Guarantees to home buyers	11,962	5,433	875	799	19,069
Guarantees and other commitments	5,654	1,854	574	4,799	12,881
Commitments to issue guarantees	2,952	4,787	383	–	8,122
Total guarantees	**23,103**	**12,871**	**1,920**	**5,709**	**43,603**

Note 11 – Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A) Activity on consolidated basis

	March 31, 2023			March 31, 2022		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
1. Stated amounts of derivative instruments						
Interest contracts						
Forward contracts	599	5,000	5,599	830	400	1,230
Options written	–	–	–	–	–	–
Options purchased	–	–	–	–	–	–
Swaps[(1)]	24,570	42,519	67,089	28,609	25,456	54,065
Total[(2)]	**25,169**	**47,519**	**72,688**	**29,439**	**25,856**	**55,295**
Of which: Hedging derivatives[(3)]	**2,885**	**–**	**2,885**	**3,750**	**–**	**3,750**
Currency contracts						
Forward contracts and futures contracts[(4) 6)]	57,556	144,140	201,696	68,374	99,478	167,852
Options written	–	18,629	18,629	–	14,365	14,365
Options purchased	–	18,635	18,635	–	14,430	14,430
Swaps	913	756	1,669	1,282	990	2,272
Total	**58,469**	**182,160**	**240,629**	**69,656**	**129,263**	**198,919**
Of which: Hedging derivatives[(3)]	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Forward contracts and futures contracts	–	24,104	24,104	–	43,760	43,760
Options written	52	4,337	4,389	126	8,813	8,939
Options purchased[(5)]	–	4,339	4,339	16	8,510	8,526
Swaps	–	1,622	1,622	–	841	841
Total	**52**	**34,402**	**34,454**	**142**	**61,924**	**62,066**
Commodities and other contracts						
Forward contracts and futures contracts	–	222	222	–	172	172
Options written	–	–	–	–	–	–
Options purchased	–	–	–	–	–	–
Total	**–**	**222**	**222**	**–**	**172**	**172**
Credit contracts						
Bank is guarantor	290	–	290	254	–	254
Bank is beneficiary	60	–	60	75	–	75
Total	**350**	**–**	**350**	**329**	**–**	**329**
Total stated amount	**84,040**	**264,303**	**348,343**	**99,566**	**217,215**	**316,781**

(1) Includes swaps where the banking corporation pays a fixed interest rate amounting to NIS 40,121 million (as of March 31, 2022: NIS 32,735 million)
(2) Of which: NIS/CPI swaps amounting to NIS 6,654 million (as of March 31, 2022: NIS 6,860 million)
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: NIS/CPI swaps amounting to NIS 5,899 million (as of March 31, 2022: NIS 8,525 million)
(5) Of which: Traded on the Stock Exchange, amounting to NIS 4,339 million (as of March 31, 2022: NIS 8,050 million)
(6) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A. Activity on consolidated basis – continued

	December 31, 2022		
	Derivatives not held for trading	Derivatives held for trading	Total
1. Stated amounts of derivative instruments			
Interest contracts			
Forward contracts	594	5,565	6,159
Options written	–	–	–
Options purchased	–	–	–
Swaps(1)	32,082	31,670	63,752
Total(2)	**32,676**	**37,235**	**69,911**
Of which: Hedging derivatives(3)	**3,033**	**–**	**3,033**
Currency contracts			
Forward contracts and futures(contracts(4) 6)	57,098	104,321	161,419
Options written	–	13,158	13,158
Options purchased	–	13,187	13,187
Swaps	909	805	1,714
Total	**58,007**	**131,471**	**189,478**
Of which: Hedging derivatives(3)	**–**	**–**	**–**
Contracts for shares			
Forward contracts and futures contracts	–	20,789	20,789
Options written	63	7,446	7,509
Options purchased(5)	–	7,447	7,447
Swaps	–	3,598	3,598
Total	**63**	**39,280**	**39,343**
Commodities and other contracts			
Forward contracts and futures contracts	–	258	258
Options written	–	–	–
Options purchased	–	–	–
Total	**–**	**258**	**258**
Credit contracts			
Bank is guarantor	281	–	281
Bank is beneficiary	64	–	64
Total	**345**	**–**	**345**
Total stated amount	**91,091**	**208,244**	**299,335**

(1) Of which: seaps where the banking corporation pays a fixed interest, amounting to NIS 36,435 million.
(2) Of which: NIS/CPI swaps amounting to NIS 6,794 million.
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: Foreign currency spot swaps amounting to NIS 2,453 million.
(5) Of which: Traded on the stock exchange, amounting to NIS 6,433 million.
(6) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A. Activity on consolidated basis – continued

	March 31, 2023					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	1,312	686	1,998	1,067	645	1,712
Of which: Hedging derivatives	198	–	198	59	–	59
Currency contracts(1)	446	3,029	3,475	680	2,806	3,486
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	29	754	783	760	20	780
Commodities and other contracts	7	–	7	7	–	7
Credit contracts	3	–	3	9	–	9
Total assets / liabilities with respect to derivatives, gross(2)	**1,797**	**4,469**	**6,266**	**2,523**	**3,471**	**5,994**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**1,797**	**4,469**	**6,266**	**2,523**	**3,471**	**5,994**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	48	1,637	1,685	48	1,219	1,267

	March 31, 2022					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	518	318	836	577	348	925
Of which: Hedging derivatives	63	–	63	91	–	91
Currency contracts(1)	180	1,755	1,935	144	1,651	1,795
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	586	586	10	210	220
Commodities and other contracts	–	2	2	–	2	2
Credit contracts	2	–	2	7	–	7
Total assets / liabilities with respect to derivatives, gross(2)	**700**	**2,661**	**3,361**	**738**	**2,211**	**2,949**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**700**	**2,661**	**3,361**	**738**	**2,211**	**2,949**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	96	768	864	50	818	868

(1) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

(2) Of which: Gross fair value of assets with respect to embedded derivative instruments amounting to NIS 9 million (as of March 31, 2022: NIS 8 million). Fair value of liabilities with respect to embedded derivative instruments amounting to NIS 6 million (as of March 31, 2022: NIS 9 million).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A. Activity on consolidated basis – continued

	December 31, 2022					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	1,428	689	2,117	1,331	436	1,767
Of which: Hedging derivatives	217	–	217	56	–	56
Currency contracts[(1)]	94	2,904	2,998	291	2,417	2,708
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	677	677	7	725	732
Commodities and other contracts	–	4	4	–	4	4
Credit contracts	2	–	2	10	–	10
Total assets / liabilities with respect to derivatives, gross[(2)]	**1,524**	**4,274**	**5,798**	**1,639**	**3,582**	**5,221**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**1,524**	**4,274**	**5,798**	**1,639**	**3,582**	**5,221**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	63	1,709	1,772	48	956	1,004

(1) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

(2) Of which: Gross fair value of assets with respect to embedded derivatives amounting to NIS 9 million. Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 7 million.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

B. Accounting hedges

1. Fair value hedge[1]

	For the three months ended March 31		For the year ended December 31
	2023	2022	2022
			Interest revenues (expenses)
Interest contracts			
Hedged items	28	(105)	(241)
Hedging derivatives	(25)	101	247

	Balance as of March 31				Balance as of December 31	
	2023		2022		2022	
	Book value	Cumulative fair value adjustments that increased the book value	Book value	Cumulative fair value adjustments that increased the book value	Book value	Cumulative fair value adjustments that increased the book value
Securities available for sale	1,687	16	1,742	66	1,647	43

2. Cash flows hedges[2]

For the three months ended March 31				For the year ended December 31	
2023		2022		2022	
Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)
–	(8)	(7)	(19)	12	(74)

(1) Reflects amounts included in assessment of hedge effectiveness.

(2) Reflects amounts excluded from assessment of hedge effectiveness, for which the difference between the change in fair value and the periodic write-down is recognized on Other Comprehensive Income (Loss).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C. Credit risk on financial derivatives according to counter-party to the contract – Consolidated

	March 31, 2023						
	Stock exchanges	**Banks**	**Dealers/ Brokers**	**Governments and central banks**	**Institutional investors**	**Others**	**Total**
Carrying amount of assets with respect to derivative instruments	**46**	**2,331**	**723**	**–**	**2,520**	**646**	**6,266**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	–	(2,246)	–	–	(994)	(35)	[(1)](3,275)
Mitigation of credit risk with respect to cash collateral received	–	(29)	–	–	(1,113)	(24)	(1,166)
Net amount of assets with respect to derivative instruments	**46**	**56**	**723**	**–**	**413**	**587**	**1,825**
Net off-balance sheet credit risk with respect to derivative instruments[(2)]	64	702	1,097	12	1,938	379	4,192
Total credit risk on derivative instruments	**110**	**758**	**1,820**	**12**	**2,351**	**966**	**6,017**
Carrying amount of liabilities with respect to derivative instruments	**45**	**3,661**	**723**	**62**	**994**	**509**	**5,994**
Gross amounts not offset in the balance sheet:							
Financial instruments	–	(2,246)	–	–	(994)	(35)	(3,275)
Pledged cash collateral	–	(1,415)	–	(54)	–	–	(1,469)
Net amount of liabilities with respect to derivative instruments	**45**	**–**	**723**	**8**	**–**	**474**	**1,250**

	March 31, 2022						
	Stock exchanges	**Banks**	**Dealers/ Brokers**	**Governments and central banks**	**Institutional investors**	**Others**	**Total**
Carrying amount of assets with respect to derivative instruments	**82**	**1,605**	**45**	**14**	**678**	**937**	**3,361**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	–	(1,195)	–	–	(403)	(107)	(1,705)
Mitigation of credit risk with respect to cash collateral received	–	(247)	–	(6)	–	(53)	(306)
Net amount of assets with respect to derivative instruments	**82**	**163**	**45**	**8**	**275**	**777**	**1,350**
Net off-balance sheet credit risk with respect to derivative instruments[(2)]	243	446	227	–	684	170	1,770
Total credit risk on derivative instruments	**325**	**609**	**272**	**8**	**959**	**947**	**3,120**
Carrying amount of liabilities with respect to derivative instruments	**85**	**1,195**	**45**	**–**	**1,056**	**568**	**2,949**
Gross amounts not offset in the balance sheet:							
Financial instruments	–	(1,195)	–	–	(403)	(107)	(1,705)
Pledged cash collateral	–	–	–	–	–	(59)	(59)
Net amount of liabilities with respect to derivative instruments	**85**	**–**	**45**	**–**	**653**	**402**	**1,185**

(1) This balance consists entirely of derivative instruments subject to offset agreements.

(2) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C) Credit risk on financial derivatives according to counter-party to the contract – Consolidated – continued

							December 31, 2022
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Institutional investors	Others	Total
Carrying amount of assets with respect to derivative instruments	**69**	**2,340**	**450**	**–**	**2,278**	**661**	**5,798**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	–	(1,930)	–	–	(470)	(52)	(1)(2,452)
Mitigation of credit risk with respect to cash collateral received	–	(35)	–	–	(567)	(52)	(654)
Net amount of assets with respect to derivative instruments	**69**	**375**	**450**	**–**	**1,241**	**557**	**2,692**
Net off-balance sheet credit risk with respect to derivative instruments(2)	118	664	726	5	1,669	469	3,651
Total credit risk on derivative instruments	**187**	**1,039**	**1,176**	**5**	**2,910**	**1,026**	**6,343**
Carrying amount of liabilities with respect to derivative instruments	**54**	**3,575**	**450**	**14**	**470**	**658**	**5,221**
Gross amounts not offset in the balance sheet:							
Financial instruments	–	(1,930)	–	–	(470)	(52)	(2,452)
Pledged cash collateral	–	(1,645)	–	(14)	–	–	(1,659)
Net amount of liabilities with respect to derivative instruments	**54**	**–**	**450**	**–**	**–**	**606**	**1,110**

(1) This balance consists entirely of derivative instruments subject to offset agreements.

(2) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

In the first quarter of 2023, the Bank recognized revenues from decrease in credit losses with respect to derivative instruments amounting to NIS 10 million (in the first quarter of 2022, the Bank recognized expenses from increase in credit losses with respect to derivative instruments amounting to NIS 1 million; and in 2022, the Bank recognized expenses from increase in credit losses amounting to NIS 32 million).

D) Maturity dates – stated amounts: Balances at end of period – Consolidated

					March 31, 2023
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	1,214	1,867	2,715	858	6,654
Other	5,265	20,453	25,467	14,849	66,034
Currency contracts	166,764	67,897	5,812	156	240,629
Contracts for shares	32,142	2,245	67	–	34,454
Commodities and other contracts	290	267	15	–	572
Total	**205,675**	**92,729**	**34,076**	**15,863**	**348,343**

					March 31, 2022
Total	**188,055**	**86,695**	**28,960**	**13,071**	**316,781**

					December 31, 2022
Total	**174,385**	**79,826**	**29,457**	**15,667**	**299,335**

Note 12 – Operating Segments

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for customers.

The financial information on the Report of the Board of Directors and Management is included based on definitions of supervisory segments.

In addition, the financial statements include – in Note 12 to the financial statements – disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in customerattribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).

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

Definitions of supervisory operating segments are as follows:

Households – individuals, other than private banking customers, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million.

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in bonds available for sale and in bonds held to maturity, hedging using derivatives, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Real investments – Investment in shares available for sale and in associated companies of businesses.

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

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended March 31, 2023 (Unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Residential mortgages	Others	Of which: Credit cards	Total		
Interest revenues from externals	2,692	462	17	3,154	1	685
Interest expenses from externals	–	555	–	555	184	265
Interest revenues, net from externals	2,692	(93)	17	2,599	(183)	420
Interest revenues, net – inter-segment	(2,003)	968	(3)	(1,035)	266	217
Total interest revenues, net	**689**	**875**	**14**	**1,564**	**83**	**637**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	35	175	53	210	5	145
Total non-interest revenues	**35**	**175**	**53**	**210**	**5**	**145**
Total revenues	**724**	**1,050**	**67**	**1,774**	**88**	**782**
Expenses (income) with respect to credit losses	42	85	5	127	–	80
Operating and other expenses to externals	245	590	18	835	5	299
Operating and other expenses – inter-segment	–	(1)	–	(1)	–	(2)
Total operating and other expenses	**245**	**589**	**18**	**834**	**5**	**297**
Pre-tax profit (loss)	437	376	44	813	83	405
Provision for taxes on profit	151	130	15	281	29	140
After-tax profit	**286**	**246**	**29**	**532**	**54**	**265**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	286	246	29	532	54	265
Net profit attributed to non-controlling interests	–	(41)	(1)	(41)	–	(4)
Net profit attributable to shareholders of the banking corporation	**286**	**205**	**28**	**491**	**54**	**261**
Average balance of assets	199,271	26,877	4,518	226,148	129	34,751
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	198,322	26,804	4,518	225,126	129	34,697
Balance of loans to the public at end of reported period	(3)198,786	27,652	4,689	226,438	136	34,919
Balance of non-accruing debts	1,506	53	–	1,559	–	851
Balance of debt in arrears 90 days or longer	–	47	–	47	–	39
Average balance of liabilities	323	128,586	–	128,909	25,697	55,941
Of which: Average balance of deposits from the public	–	126,495	–	126,495	25,697	55,661
Balance of deposits from the public at end of reported period	–	127,827	–	127,827	26,365	55,463
Average balance of risk assets(1)	117,614	21,716	4,123	139,330	57	33,051
Balance of risk assets at end of reported period(1)	118,373	21,911	4,123	140,284	55	33,067
Average balance of assets under management(2)	10,307	41,800	–	52,107	3,575	40,971
Breakdown of interest revenues, net:						
Margin from credit granting operations	609	273	14	882	–	331
Margin from activities of receiving deposits	–	591	–	591	83	278
Other	80	11	–	91	–	28
Total interest revenues, net	**689**	**875**	**14**	**1,564**	**83**	**637**

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes customers' provident funds, study funds, mutual funds and securities.
(3) Of which: Balance of residential mortgages to customers classified under the micro and small business segment, amounting to NIS 13,400.

						Operations overseas	Total
	Medium businesses	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Total – operations overseas	
–							
	213	535	17	807	5,412	348	5,760
	90	338	660	438	2,530	84	2,614
	123	197	(643)	369	2,882	264	3,146
	26	118	701	(123)	170	(170)	–
	149	**315**	**58**	**246**	**3,052**	**94**	**3,146**
	–	–	–	87	87	–	87
	27	46	14	140	587	6	593
	27	**46**	**14**	**227**	**674**	**6**	**680**
	176	**361**	**72**	**473**	**3,726**	**100**	**3,826**
	(12)	20	–	–	215	12	227
	52	81	41	99	1,412	25	1,437
	–	1	–	2	–	–	–
	52	**82**	**41**	**101**	**1,412**	**25**	**1,437**
	136	259	31	372	2,099	63	2,162
	47	89	11	128	725	22	747
	89	**170**	**20**	**244**	**1,374**	**41**	**1,415**
	–	–	–	1	1	–	1
	89	170	20	245	1,375	41	1,416
	–	–	–	(4)	(49)	–	(49)
	89	**170**	**20**	**241**	**1,326**	**41**	**1,367**
	11,943	32,020	1,162	98,722	404,875	25,836	430,711
	–	–	–	1,177	1,177	–	1,177
	11,943	32,020	748	–	304,663	6,747	311,410
	12,370	32,128	2,205	–	308,196	7,220	315,416
	184	99	–	–	2,693	12	2,705
	–	–	–	–	86	–	86
	13,204	42,266	68,223	57,992	392,232	10,240	402,472
	13,204	39,828	67,341	–	328,226	7,486	335,712
	12,486	37,586	78,150	–	337,877	10,592	348,469
	14,431	42,482	2,277	14,260	245,888	8,675	254,563
	14,765	41,473	2,211	15,867	247,722	9,152	256,874
	10,050	29,466	264,522	1,748	402,439	–	402,439
–							
	87	214	5	–	1,519	59	1,578
	50	71	51	–	1,124	4	1,128
	12	30	2	246	409	31	440
	149	**315**	**58**	**246**	**3,052**	**94**	**3,146**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended March 31, 2022 (Unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Residential mortgages	Others	Of which: Credit cards	Total		
Interest revenues from externals	1,986	381	9	2,367	–	370
Interest expenses from externals	–	221	–	221	65	59
Interest revenues, net from externals	1,986	160	9	2,146	(65)	311
Interest revenues, net – inter-segment	(1,383)	202	(1)	(1,181)	88	46
Total interest revenues, net	**603**	**362**	**8**	**965**	**23**	**357**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	36	190	32	226	6	145
Total non-interest revenues	**36**	**190**	**32**	**226**	**6**	**145**
Total revenues	**639**	**552**	**40**	**1,191**	**29**	**502**
Expenses with respect to credit losses	14	5	–	19	(1)	43
Operating and other expenses to externals	225	593	21	818	3	304
Operating and other expenses – inter-segment	–	(42)	(4)	(42)	2	(24)
Total operating and other expenses	**225**	**551**	**17**	**776**	**5**	**280**
Pre-tax profit (loss)	400	(4)	23	396	25	179
Provision (reduced provision) for taxes on profit	130	(1)	7	129	8	58
After-tax profit (loss)	**270**	**(3)**	**16**	**267**	**17**	**121**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	270	(3)	16	267	17	121
Net profit attributed to non-controlling interests	–	(11)	–	(11)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**270**	**(14)**	**16**	**256**	**17**	**120**
Average balance of assets	178,567	25,234	3,541	203,801	116	31,338
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	178,567	25,234	3,541	203,801	116	31,338
Balance of loans to the public at end of reported period	182,090	26,861	4,547	208,951	120	32,163
Balance of non-accruing debts	1,472	59	–	1,531	–	590
Balance of debt in arrears 90 days or longer	–	25	–	25	–	37
Average balance of liabilities	–	123,117	3,541	123,117	21,783	51,707
Of which: Average balance of deposits from the public	–	119,576	–	119,576	21,783	51,707
Balance of deposits from the public at end of reported period	–	119,992	–	119,992	22,048	52,510
Average balance of risk assets(1)	102,781	23,578	4,271	126,359	70	27,966
Balance of risk assets at end of reported period(1)	103,616	23,761	4,271	127,377	65	28,567
Average balance of assets under management(2)	7,874	59,535	–	67,409	6,126	40,865
Breakdown of interest revenues, net:						
Margin from credit granting operations	578	243	7	821	1	308
Margin from activities of receiving deposits	–	117	–	117	21	36
Other	25	2	1	27	1	13
Total interest revenues, net	**603**	**362**	**8**	**965**	**23**	**357**

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes customers' provident funds, study funds, mutual funds and securities.

						Operations overseas	Total
	Medium businesses	**Large businesses**	**Institutional investors**	**Financial management segment**	**Total activity in Israel**	**Total – operations overseas**	
–							
	108	162	13	64	3,084	60	3,144
	19	64	106	463	997	3	1,000
	89	98	(93)	(399)	2,087	57	2,144
	4	57	127	862	3	(3)	–
	93	**155**	**34**	**463**	**2,090**	**54**	**2,144**
	–	1	–	115	116	1	117
	26	56	15	473	947	5	952
	26	**57**	**15**	**588**	**1,063**	**6**	**1,069**
	119	**212**	**49**	**1,051**	**3,153**	**60**	**3,213**
	(19)	30	4	–	76	3	79
	38	61	22	124	1,370	18	1,388
	19	27	16	2	–	–	–
	57	**88**	**38**	**126**	**1,370**	**18**	**1,388**
	81	94	7	925	1,707	39	1,746
	26	31	2	302	556	13	569
	55	**63**	**5**	**623**	**1,151**	**26**	**1,177**
	–	–	–	1	1	–	1
	55	63	5	624	1,152	26	1,178
	–	–	–	(12)	(24)	–	(24)
	55	**63**	**5**	**612**	**1,128**	**26**	**1,154**
	10,313	23,512	2,006	101,166	372,252	15,354	387,606
	–	–	–	109	109	–	109
	10,313	23,512	2,006	–	271,086	4,373	275,459
	11,573	25,885	2,005	–	280,697	4,760	285,457
	324	160	–	–	2,605	6	2,611
	–	–	–	–	62	–	62
	14,762	35,223	59,774	45,100	351,466	13,964	365,430
	14,762	35,223	59,774	–	302,825	4,495	307,320
	14,426	36,046	63,118	–	308,140	4,513	312,653
	13,259	34,754	1,476	13,044	216,928	5,578	222,506
	13,582	35,900	1,522	13,771	220,784	5,517	226,301
	6,480	33,046	389,072	3,187	546,185	–	546,185
–							
	80	129	7	–	1,346	96	1,442
	10	17	18	–	219	6	225
	3	9	9	463	525	(48)	477
	93	**155**	**34**	**463**	**2,090**	**54**	**2,144**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the year ended December 31, 2022 (audited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Residential mortgages	Others	Of which: Credit cards	Total		
Interest revenues from externals	9,361	1,540	42	10,901	3	1,952
Interest expenses from externals	–	1,228	–	1,228	386	453
Interest revenues, net from externals	9,361	312	42	9,673	(383)	1,499
Interest revenues, net – inter-segment	(6,811)	1,879	(8)	(4,932)	555	359
Total interest revenues, net	**2,550**	**2,191**	**34**	**4,741**	**172**	**1,858**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	83	802	213	885	17	564
Total non-interest revenues	**83**	**802**	**213**	**885**	**17**	**564**
Total revenues	**2,633**	**2,993**	**247**	**5,626**	**189**	**2,422**
Expenses with respect to credit losses	99	97	8	196	–	113
Operating and other expenses to externals	988	2,448	65	3,436	19	1,270
Operating and other expenses – inter-segment	–	(4)	(1)	(4)	(1)	(9)
Total operating and other expenses	**988**	**2,444**	**64**	**3,432**	**18**	**1,261**
Pre-tax profit (loss)	1,546	452	175	1,998	171	1,048
Provision for taxes on profit	523	153	59	676	58	355
After-tax profit	**1,023**	**299**	**116**	**1,322**	**113**	**693**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	1,023	299	116	1,322	113	693
Net profit attributed to non-controlling interests	–	(110)	(6)	(110)	–	(10)
Net profit attributable to shareholders of the banking corporation	**1,023**	**189**	**110**	**1,212**	**113**	**683**
Average balance of assets	188,681	25,473	3,232	214,154	143	33,520
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	188,681	25,473	3,232	214,154	143	33,520
Balance of loans to the public at end of reported period	(3)196,717	27,559	4,622	224,276	154	35,147
Balance of non-accruing debts	1,329	55	–	1,384	–	822
Balance of debt in arrears 90 days or longer	–	44	–	44	–	69
Average balance of liabilities	–	125,472	3,232	125,472	23,325	54,974
Of which: Average balance of deposits from the public	–	122,240	–	122,240	23,325	54,974
Balance of deposits from the public at end of reported period	–	125,823	–	125,823	25,755	55,805
Average balance of risk assets(1)	108,389	23,125	4,204	131,514	66	30,550
Balance of risk assets at end of reported period(1)	116,855	21,520	4,123	138,375	58	33,036
Average balance of assets under management(2)	9,487	68,230	–	77,717	3,001	42,270
Breakdown of interest revenues, net:						
Margin from credit granting operations	2,358	1,011	34	3,369	1	1,311
Margin from activities of receiving deposits	–	1,164	–	1,164	167	480
Other	192	16	–	208	4	67
Total interest revenues, net	**2,550**	**2,191**	**34**	**4,741**	**172**	**1,858**

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes customers' provident funds, study funds, mutual funds and securities.
(3) Of which: Balance of residential mortgages to customers classified under the micro and small business segment, amounting to NIS 13,797.

						Operations overseas	Total
	Medium businesses	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Total – operations overseas	
–							
	573	1,093	46	1,075	15,643	552	16,195
	148	591	1,213	1,861	5,880	75	5,955
	425	502	(1,167)	(786)	9,763	477	10,240
	32	300	1,406	2,510	230	(230)	–
	457	**802**	**239**	**1,724**	**9,993**	**247**	**10,240**
	–	–	–	754	754	–	754
	99	190	49	844	2,648	26	2,674
	99	**190**	**49**	**1,598**	**3,402**	**26**	**3,428**
	556	**992**	**288**	**3,322**	**13,395**	**273**	**13,668**
	94	101	–	–	504	28	532
	264	381	199	527	6,096	77	6,173
	–	5	2	7	–	–	–
	264	**386**	**201**	**534**	**6,096**	**77**	**6,173**
	198	505	87	2,788	6,795	168	6,963
	67	171	29	943	2,299	57	2,356
	131	**334**	**58**	**1,845**	**4,496**	**111**	**4,607**
	–	–	–	5	5	–	5
	131	334	58	1,850	4,501	111	4,612
	–	–	–	(20)	(140)	–	(140)
	131	**334**	**58**	**1,830**	**4,361**	**111**	**4,472**
	11,526	27,131	1,925	107,471	395,870	17,650	413,520
	–	–	–	346	346	–	346
	11,526	27,131	1,925	–	288,399	5,293	293,692
	12,902	28,779	2,559	–	303,817	6,539	310,356
	197	163	–	–	2,566	11	2,577
	–	–	–	–	113	–	113
	14,044	37,382	65,945	58,708	379,850	5,917	385,767
	14,044	37,382	65,945	–	317,910	5,603	323,513
	13,570	39,636	75,938	–	336,527	7,987	344,514
	13,610	37,854	2,280	12,910	228,784	6,882	235,666
	14,098	43,490	2,343	12,652	244,052	8,199	252,251
	8,668	32,728	374,075	1,837	540,296	–	540,296
–							
	337	602	28	–	5,648	165	5,813
	97	141	197	–	2,246	12	2,258
	23	59	14	1,724	2,099	70	2,169
	457	**802**	**239**	**1,724**	**9,993**	**247**	**10,240**

Note 12 – Operating Segments – continued

B. Operating segments in conformity with the management approach

The Bank manages its operations in six major operating segments, which are distinguished by customercharacteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for customers and activity in derivatives, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted through Bank branches, the trading room, the business centers, headquarters units of the Bank and Bank subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see information about supervisory operating segments above.

Below are the Bank's operating segments in conformity with the management approach:

Household segment – under responsibility of the Retail Division. This segment includes small household customers and mortgage operations. The division provides appropriate banking services and financial products to segment customers, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves micro business customers (businesses with annual turnover below NIS 10 million) and small businesses (with annual turnover from NIS 10 million to under NIS 50 million). Occasionally, due to growth in activity of a customer served by the Retail Division, the customermay exceed the aforementioned criteria. Banking services and financial products, including commercial banking services as required, are provided to segment customers.

Private banking – The Retail Division is responsible for private banking. Segment customers are primarily individual customers with liquid assets (primarily short-term deposits and security investments) over NIS 1 million. Customers of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – customers of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via three business centers located throughout Israel. As from 2019, new business customers with annual turnover from NIS 50 million to under NIS 250 million are assigned to the Business sector. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Business banking – the Major Corporations sector in the Corporate Division is responsible for the Business Banking segment, which is the focal point for handling the largest business customers. As from 2019, businesses with annual turnover above NIS 250 million are assigned to the Corporate Sector. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The Finance Division is responsible for this segment, except for investments in non-banking corporations, for which the Corporate Division is responsible.

The major products and guidelines for attribution of balances, revenues and expenses to customers in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach

For the three months ended March 31, 2023 (Unaudited)

Reported amounts (NIS in millions)

	House-holds – other	House-holds – mort-gages	Private banking	Small busi-nesses	Com-mercial banking	Business banking	Financial mana-gement	Total conso-lidated
Interest revenues, net:								
From externals	(83)	2,538	(36)	220	84	180	243	3,146
Inter-segment	1,123	(1,954)	59	291	36	377	68	–
Total interest revenues, net	**1,040**	**584**	**23**	**511**	**120**	**557**	**311**	**3,146**
Non-interest financing revenues	8	–	–	–	–	16	63	87
Commissions and other revenues	184	37	4	123	22	96	127	593
Total revenues	**1,232**	**621**	**27**	**634**	**142**	**669**	**501**	**3,826**
Expenses with respect to credit losses	65	39	–	63	15	45	–	227
Operating and other expenses	606	229	7	253	64	171	107	1,437
Pre-tax profit	561	353	20	318	63	453	394	2,162
Provision for taxes on profit	194	122	7	110	22	157	135	747
After-tax profit	**367**	**231**	**13**	**208**	**41**	**296**	**259**	**1,415**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit:								
Before attribution to non-controlling interests	367	231	13	208	41	296	260	1,416
Attributable to non-controlling interests	(41)	–	–	(4)	–	–	(4)	(49)
Net profit attributable to shareholders of the Bank	**326**	**231**	**13**	**204**	**41**	**296**	**256**	**1,367**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	38.0%	8.4%	–	42.5%	14.7%	16.5%	–	22.4%
Average balance of loans to the public, net	35,301	186,958	306	22,498	9,548	53,979	–	308,590
Average balance of deposits from the public	153,170	–	5,837	48,129	14,059	99,393	15,124	335,712
Average balance of assets	37,632	187,887	376	22,753	9,645	73,670	98,748	430,711
Average balance of risk assets(2)	30,640	108,382	181	18,969	11,050	69,501	15,840	254,563

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach

For the three months ended March 31, 2022 (Unaudited)

Reported amounts (NIS in millions)

	House-holds – other	House-holds – mort-gages	Private banking	Small busi-nesses	Com-mercial banking	Business banking	Financial mana-gement	Total conso-lidated
Interest revenues, net:								
From externals	156	1,918	(5)	222	70	286	(503)	2,144
Inter-segment	307	(1,401)	17	66	6	30	975	–
Total interest revenues, net	**463**	**517**	**12**	**288**	**76**	**316**	**472**	**2,144**
Non-interest financing revenues	21	–	–	–	–	11	85	117
Commissions and other revenues	188	37	5	124	21	84	493	952
Total revenues	**672**	**554**	**17**	**412**	**97**	**411**	**1,050**	**3,213**
Expenses with respect to credit losses	4	14	–	44	(13)	30	–	79
Operating and other expenses	570	216	6	242	68	155	131	1,388
Pre-tax profit	98	324	11	126	42	226	919	1,746
Provision (reduced provision) for taxes on profit	32	106	4	41	14	74	298	569
After-tax profit	**66**	**218**	**7**	**85**	**28**	**152**	**621**	**1,177**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit:								
Before attribution to non-controlling interests	66	218	7	85	28	152	622	1,178
Attributable to non-controlling interests	(11)	–	–	(1)	–	–	(12)	(24)
Net profit attributable to shareholders of the Bank	**55**	**218**	**7**	**84**	**28**	**152**	**610**	**1,154**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	8.8%	9.0%	–	18.2%	11.4%	11.2%	–	21.9%
Average balance of loans to the public, net	32,601	169,521	427	22,332	8,475	40,064	–	273,420
Average balance of deposits from the public	139,290	–	7,429	44,826	13,978	84,105	17,692	307,320
Average balance of assets	33,625	169,716	305	22,430	8,531	50,848	102,151	387,606
Average balance of risk assets(2)	29,704	97,102	105	18,643	9,820	54,283	12,849	222,506

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach

For the year ended December 31, 2022 (audited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	490	8,719	(58)	887	307	784	(889)	10,240
Inter-segment	2,194	(6,566)	119	578	78	876	2,721	–
Total interest revenues, net	**2,684**	**2,153**	**61**	**1,465**	**385**	**1,660**	**1,832**	**10,240**
Non-interest financing revenues	57	1	1	2	1	121	571	754
Commissions and other revenues	747	150	16	478	86	361	836	2,674
Total revenues	**3,488**	**2,304**	**78**	**1,945**	**472**	**2,142**	**3,239**	**13,668**
Expenses with respect to credit losses	100	94	1	109	93	135	–	532
Operating and other expenses	2,544	951	27	1,107	313	692	539	6,173
Pre-tax profit (loss)	844	1,259	50	729	66	1,315	2,700	6,963
Provision (reduced provision) for taxes on profit	286	426	17	247	22	445	913	2,356
After-tax profit (loss)	**558**	**833**	**33**	**482**	**44**	**870**	**1,787**	**4,607**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	5	5
Net profit (loss):								
Before attribution to non-controlling interests	558	833	33	482	44	870	1,792	4,612
Attributable to non-controlling interests	(110)	–	–	(10)	–	–	(20)	(140)
Net profit (loss) attributable to shareholders of the Bank	**448**	**833**	**33**	**472**	**44**	**870**	**1,772**	**4,472**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	17.6%	8.2%	–	25.7%	4.2%	14.5%	–	20.1%
Average balance of loans to the public, net	33,763	178,602	480	22,478	9,313	46,726	–	291,362
Average balance of deposits from the public	145,190	–	7,026	46,911	14,693	95,179	14,514	323,513
Average balance of assets	34,589	179,349	1,042	22,583	9,399	67,567	98,991	413,520
Average balance of risk assets(2)	30,188	101,626	133	18,671	10,585	59,487	14,976	235,666

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[1], bonds held to maturity and bonds available for sale and off-balance sheet credit instruments

1. Movement in balance of provision for credit losses

	For the three months ended March 31, 2023 (Unaudited)					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Balance of provision for credit losses at start of period	1,690	902	512	3,104	1	3,105
Expenses with respect to credit losses	100	42	85	227	–	227
Accounting write-offs[2]	(53)	–	(54)	(107)	–	(107)
Collection of debts written off for accounting purposes in previous years[2]	29	–	25	54	–	54
Net accounting write-offs	(24)	–	(29)	(53)	–	(53)
Balance of provision for credit losses at end of period	**1,766**	**944**	**568**	**3,278**	**1**	**3,279**
Of which: With respect to off balance sheet credit instruments	**157**	**5**	**19**	**181**	**–**	**181**
	For the three months ended March 31, 2022 (Unaudited)					
Balance of provision for credit losses at start of period	1,256	804	254	2,314	1	2,315
Opening balance adjustment for effect of initial application of public reporting directives with regard to expected credit losses[3]	275	(32)	149	392	–	392
Expenses with respect to credit losses	51	14	14	79	–	79
Accounting write-offs[2]	(38)	–	(35)	(73)	–	(73)
Collection of debts written off for accounting purposes in previous years[2]	30	–	23	53	–	53
Net accounting write-offs	(8)	–	(12)	(20)	–	(20)
Other[4]	(23)	1	10	(12)	–	(12)
Balance of provision for credit losses at end of period	**1,551**	**787**	**415**	**2,753**	**1**	**2,754**
Of which: With respect to off balance sheet credit instruments	**192**	**8**	**13**	**213**	**–**	**213**

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

(2) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of customers being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large non-accruing debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

(3) Including with respect to residential mortgages of insignificant amount.

(4) Movement in provision for credit losses in subsidiary, primarily attributed to cost of acquisition upon initial consolidation, and is therefore not included on the consolidated balance sheet.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Debts[(1)], bonds held to maturity and bonds available for sale and off-balance sheet credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated:

	March 31, 2023 (unaudited)					
	Loans to the public				Banks, govern-ments and bonds	Total
	Commercial	Housing	Indivi-dual – other	Total		
Recorded debt balance[(1)]						
reviewed on individual basis	76,446	–	351	76,797	32,470	109,267
reviewed on group basis	13,547	198,901	26,171	238,619	–	238,619
Total debts	**89,993**	**[(2)]198,901**	**26,522**	**315,416**	**32,470**	**347,886**
Provision for credit losses with respect to debts[(1)]						
reviewed on individual basis	1,194	–	10	1,204	1	1,205
reviewed on group basis	415	939	539	1,893	–	1,893
Total provision for credit losses	**1,609**	**939**	**549**	**3,097**	**1**	**3,098**
	March 31, 2022 (unaudited)					
Recorded debt balance[(1)]						
reviewed on individual basis	64,685	–	497	65,182	23,108	88,290
reviewed on group basis	13,212	182,225	24,838	220,275	–	220,275
Total debts	**77,897**	**[(2)]182,225**	**25,335**	**285,457**	**23,108**	**308,565**
Provision for credit losses with respect to debts[(1)]						
reviewed on individual basis	932	–	6	938	1	939
reviewed on group basis	427	779	396	1,602	–	1,602
Total provision for credit losses	**1,359**	**779**	**402**	**2,540**	**1**	**2,541**
	As of December 31, 2022 (audited)					
Recorded debt balance[(1)]						
reviewed on individual basis	73,817	–	407	74,224	30,560	104,784
reviewed on group basis	13,160	196,840	26,132	236,132	–	236,132
Total debts	**86,977**	**[(2)]196,840**	**26,539**	**310,356**	**30,560**	**340,916**
Provision for credit losses with respect to debts[(1)]						
reviewed on individual basis	1,106	–	12	1,118	1	1,119
reviewed on group basis	385	897	484	1,766	–	1,766
Total provision for credit losses	**1,491**	**897**	**496**	**2,884**	**1**	**2,885**

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

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 12,749 million (as of March 31, 2022: NIS 11,284 million and as of December 31, 2022: NIS 12,566 million).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.a. Credit quality and arrears

	As of March 31, 2023 (unaudited)					
		Problematic[1]			Accruing debts – additional information	
	In good standing	Accruing	Non-accruing	Total	In arrears 90 days or longer[2]	In arrears 30 to 89 days[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[4]	26,617	303	178	27,098	4	32
Construction and real estate – real estate operations	7,328	229	84	7,641	–	34
Financial services	8,383	4	21	8,408	–	4
Commercial – other	40,406	773	851	42,030	35	127
Total commercial	**82,734**	**1,309**	**1,134**	**85,177**	**39**	**197**
Private individuals – residential mortgages	197,268	–	1,506	198,774	–	1,305
Private individuals – other	26,304	163	53	26,520	47	109
Total loans to the public – activity in Israel	**306,306**	**1,472**	**2,693**	**310,471**	**86**	**1,611**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,815	–	–	2,815	–	–
Commercial – other	1,961	28	12	2,001	–	–
Total commercial	**4,776**	**28**	**12**	**4,816**	**–**	**–**
Private individuals	129	–	–	129	–	–
Total loans to the public – activity overseas	**4,905**	**28**	**12**	**4,945**	**–**	**–**
Total loans to the public	**311,211**	**1,500**	**2,705**	**315,416**	**86**	**1,611**

(1) Loans to the public – non-accruing, inferior or under special supervision.
(2) Classified as problematic debts accruing interest revenues.
(3) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 123 million were classified as problematic non-impaired debts.
(4) Includes debts amounting to NIS 1,320 million, extended to certain purchase groups which are in the process of construction.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.a. Credit quality and arrears – continued

	As of March 31, 2022 (unaudited)					
		Problematic[1]			Accruing debts – additional information	
	In good standing	Accruing	Non-accruing	Total	In arrears 90 days or longer[2]	In arrears 30 to 89 days[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[4]	21,805	95	197	22,097	6	53
Construction and real estate – real estate operations	6,125	47	47	6,219	1	25
Financial services	8,489	19	9	8,517	–	8
Commercial – other	36,516	470	821	37,807	30	146
Total commercial	**72,935**	**631**	**1,074**	**74,640**	**37**	**232**
Private individuals – residential mortgages[5]	180,601	–	1,472	182,073	–	901
Private individuals – other	25,026	141	59	25,226	25	89
Total loans to the public – activity in Israel	**278,562**	**772**	**2,605**	**281,939**	**62**	**1,222**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,279	–	–	2,279	–	–
Commercial – other	909	63	6	978	–	–
Total commercial	**3,188**	**63**	**6**	**3,257**	**–**	**–**
Private individuals	261	–	–	261	–	–
Total loans to the public – activity overseas	**3,449**	**63**	**6**	**3,518**	**–**	**–**
Total loans to the public	**282,011**	**835**	**2,611**	**285,457**	**62**	**1,222**

(1) Loans to the public – non-accruing, inferior or under special supervision.
(2) Classified as problematic debts accruing interest revenues.
(3) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 137 million were classified as problematic non-impaired debts.
(4) Includes debts amounting to NIS 1,731 million, extended to certain purchase groups which are in the process of construction.
(5) Reclassified.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.a. Credit quality and arrears – continued

	As of December 31, 2022 (audited)					
		Problematic[1]			Accruing debts – additional information	
	In good standing	Accruing	Non-accruing	Total	In arrears 90 days or longer[2]	In arrears 30 to 89 days[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[4]	25,416	343	159	25,918	20	54
Construction and real estate – real estate operations	7,091	58	99	7,248	2	13
Financial services	9,224	2	20	9,246	–	2
Commercial – other	38,022	774	904	39,700	47	118
Total commercial	**79,753**	**1,177**	**1,182**	**82,112**	**69**	**187**
Private individuals – residential mortgages	195,374	–	1,329	196,703	–	1,054
Private individuals – other	26,313	167	55	26,535	44	103
Total public – activity in Israel	**301,440**	**1,344**	**2,566**	**305,350**	**113**	**1,344**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,616	–	–	2,616	–	–
Commercial – other	2,210	28	11	2,249	–	–
Total commercial	**4,826**	**28**	**11**	**4,865**	**–**	**–**
Private individuals	141	–	–	141	–	–
Total public – activity overseas	**4,967**	**28**	**11**	**5,006**	**–**	**–**
Total public	**306,407**	**1,372**	**2,577**	**310,356**	**113**	**1,344**

(1) Loans to the public – non-accruing, inferior or under special supervision.
(2) Classified as problematic debts accruing interest revenues.
(3) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 105 million were classified as problematic debts.
(4) Includes debts amounting to NIS 1,352 million, extended to certain purchase groups which are in the process of construction.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.B. Credit quality by year when credit was extended

	As of March 31, 2023 (unaudited)								
	Recorded debt balance of term loans to the public								
	2023	2022	2021	2020	2019	Pre-viously	Recorded debt balance of renewable loans	Recorded debt balance of rene-wable loans conver-ted into term loans	Total
Credit quality by year when credit was extended									
Borrower activity in Israel									
Public – commercial									
Construction and real estate – total	**8,106**	**14,546**	**6,136**	**1,605**	**755**	**786**	**2,652**	**153**	**34,739**
Credit at performing credit rating	7,829	13,897	5,862	1,515	671	693	2,487	151	33,105
Credit other than at performing credit rating and non-problematic	70	371	204	46	58	57	33	1	840
Accruing problematic credit	193	243	33	11	6	5	40	1	532
Non-accruing credit	14	35	37	33	20	31	92	–	262
Commercial, other – total	**5,509**	**11,882**	**5,994**	**4,853**	**1,864**	**2,801**	**17,165**	**370**	**50,438**
Credit at performing credit rating	5,247	11,173	5,171	4,500	1,768	2,623	16,353	323	47,158
Credit other than at performing credit rating and non-problematic	150	255	622	103	15	29	450	7	1,631
Accruing problematic credit	52	131	85	96	20	24	360	9	777
Non-accruing credit	60	323	116	154	61	125	2	31	872
Individuals – residential mortgages – total	**5,116**	**36,901**	**34,514**	**22,536**	**18,532**	**81,175**	**–**	**–**	**198,774**
LTV up to 60%	3,146	19,853	19,159	12,965	11,445	58,616	–	–	125,184
LTV from 60% to 75%	1,943	16,528	14,987	8,829	6,914	21,845	–	–	71,046
LTV over 75%	27	520	368	742	173	714	–	–	2,544
Credit at performing credit rating, not in arrears	5,030	36,439	33,919	22,063	18,045	78,746	–	–	194,242
Credit not at performing credit rating, not in arrears	70	304	292	181	176	698	–	–	1,721
In arrears 30-89 days	13	116	185	145	148	698	–	–	1,305
Non-accruing credit	3	42	118	147	163	1,033	–	–	1,506
Individuals, other – total	**2,275**	**8,429**	**3,827**	**1,897**	**1,654**	**1,837**	**6,532**	**69**	**26,520**
Credit at performing credit rating, not in arrears	2,246	8,275	3,746	1,848	1,616	1,768	6,433	64	25,996
Credit at performing credit rating, not in arrears	22	84	48	34	30	59	35	3	315
In arrears 30-89 days	1	31	9	6	4	7	51	–	109
In arrears over 90 days	–	16	15	3	2	1	10	–	47
Non-accruing credit	6	23	9	6	2	2	3	2	53
Total loans to the public – activity in Israel	**21,006**	**71,758**	**50,471**	**30,891**	**22,805**	**86,599**	**26,349**	**592**	**310,471**
Borrower activity overseas									
Total loans to the public – activity overseas	**580**	**979**	**1,344**	**586**	**250**	**1,206**	**–**	**–**	**4,945**
Non-problematic credit	580	963	1,320	586	250	1,206	–	–	4,905
Accruing problematic credit	–	10	18	–	–	–	–	–	28
Non-accruing credit	–	6	6	–	–	–	–	–	12
Total loans to the public	**21,586**	**72,737**	**51,815**	**31,477**	**23,055**	**87,805**	**26,349**	**592**	**315,416**

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.B. Credit quality by year when credit was extended – continued

	As of March 31, 2022 (unaudited)								
	Recorded debt balance of term loans to the public								
	2022	2021	2020	2019	2018	Previously	Recorded debt balance of renewable loans	Recorded debt balance of renewable loans converted into term loans	Total
Credit quality by year when credit was extended									
Borrower activity in Israel									
Public – commercial									
Construction and real estate – total	**8,031**	**11,626**	**3,152**	**1,235**	**837**	**960**	**2,048**	**427**	**28,316**
Credit at performing credit rating	7,975	11,385	2,943	1,127	678	898	1,890	395	27,291
Credit other than at performing credit rating and non-problematic	40	162	172	58	128	23	27	29	639
Accruing problematic credit	5	17	23	26	23	10	38	–	142
Non-accruing credit	11	62	14	24	8	29	93	3	244
Commercial, other – total	**6,108**	**10,756**	**6,895**	**2,309**	**1,286**	**1,936**	**16,723**	**311**	**46,324**
Credit at performing credit rating	5,774	10,311	6,378	2,124	1,189	1,769	15,941	276	43,762
Credit other than at performing credit rating and non-problematic	179	228	265	66	27	62	402	14	1,243
Accruing problematic credit	80	47	103	51	19	14	162	13	489
Non-accruing credit	75	170	149	68	51	91	218	8	830
Individuals – residential mortgages – total	**9,972**	**28,832**	**26,054**	**18,842**	**21,487**	**76,886**	**–**	**–**	**182,073**
LTV up to 60%	5,264	15,944	14,975	12,584	13,479	54,283	–	–	116,529
LTV from 60% to 75%	4,670	12,715	10,901	6,198	7,670	20,920	–	–	63,074
LTV over 75%	38	173	178	60	338	1,683	–	–	2,470
Credit at performing credit rating, not in arrears	9,855	28,396	25,695	18,398	20,936	74,970	–	–	178,250
Credit not at performing credit rating, not in arrears	108	260	157	187	289	449	–	–	1,450
In arrears 30-89 days	8	118	92	111	100	472	–	–	901
Non-accruing credit	1	58	110	146	162	995	–	–	1,472
Individuals, other – total	**2,741**	**6,455**	**3,375**	**2,864**	**1,595**	**1,608**	**6,525**	**63**	**25,226**
Credit at performing credit rating, not in arrears	2,713	6,357	3,310	2,794	1,544	1,530	6,408	60	24,716
Credit at performing credit rating, not in arrears	19	67	48	57	45	64	35	2	337
In arrears 30-89 days	1	11	5	5	3	6	58	–	89
In arrears over 90 days	–	4	2	3	–	1	15	–	25
Non-accruing credit	8	16	10	5	3	7	9	1	59
Total loans to the public – activity in Israel	**26,852**	**57,669**	**39,476**	**25,250**	**25,205**	**81,390**	**25,296**	**801**	**281,939**
Borrower activity overseas									
Total loans to the public – activity overseas	**821**	**543**	**814**	**534**	**399**	**407**	**–**	**–**	**3,518**
Non-problematic credit	821	507	781	534	399	407	–	–	3,449
Accruing problematic credit	–	30	33	–	–	–	–	–	63
Non-accruing credit	–	6	–	–	–	–	–	–	6
Total loans to the public	**27,673**	**58,212**	**40,290**	**25,784**	**25,604**	**81,797**	**25,296**	**801**	**285,457**

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.A. Additional information about non-accruing debts[1]

	As of March 31, 2023 (unaudited)					
	Balance of non-accruing debts for which a provision has been recognized[1][2]	Provision balance	Balance of non-accruing debts for which a provision has not been recognized[1]	Total balance of non-accruing debts[1]	Contractual principal balance of non-accruing debts	Interest revenues recognized[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate	262	36	–	262	443	2
Commercial – other	672	196	200	872	1,380	4
Total commercial	**934**	**232**	**200**	**1,134**	**1,823**	**6**
Private individuals – residential mortgages	1,506	75	–	1,506	1,848	–
Private individuals – other	49	45	4	53	85	2
Total loans to the public – activity in Israel	**2,489**	**352**	**204**	**2,693**	**3,756**	**8**
Borrower activity overseas						
Total loans to the public – activity overseas	**12**	**1**	**–**	**12**	**81**	**–**
Total	**2,501**	**353**	**204**	**2,705**	**3,837**	**8**
Of which:						
Measured individually at present value of cash flows	857	224	190	1,047	1,814	
Measured individually at fair value of collateral	49	2	10	59	113	
Measured on group basis	1,595	127	4	1,599	1,910	

(1) Recorded debt balance.
(2) Debt balance net of accounting write-off, if made.
(3) Interest revenues recognized in the reported period, with respect to average balance of non-accruing debt in the period when the debt was classified as non-accruing.

Had the non-accruing debt accrued interest in conformity with the original terms and conditions, the Bank would have recognized interest revenues amounting to NIS 39 million.

Total average recorded debt balance for non-accruing debt in the three months ended March 31, 2023 amounted to NIS 2,641 million.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.A. Additional information about non-accruing debts[1] – continued

	As of March 31, 2022 (unaudited)					
	Balance of non-accruing debts for which a provision has been recognized[1][2]	Provision balance	Balance of non-accruing debts for which a provision has not been recognized[1]	Total balance of non-accruing debts[1]	Contractual principal balance of non-accruing debts	Interest revenues recognized[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate	231	26	13	244	372	7
Commercial – other	770	235	60	830	1,131	3
Total commercial	**1,001**	**261**	**73**	**1,074**	**1,503**	**10**
Private individuals – residential mortgages[4]	1,472	73	–	1,472	1,564	–
Private individuals – other	52	17	7	59	66	4
Total loans to the public – activity in Israel	**2,525**	**351**	**80**	**2,605**	**3,133**	**14**
Borrower activity overseas						
Total loans to the public – activity overseas	**6**	**–**	**–**	**6**	**–**	**–**
Total	**2,531**	**351**	**80**	**2,611**	**3,133**	**14**
Of which:						
Measured individually at present value of cash flows	926	253	64	990	1,387	
Measured individually at fair value of collateral	12	1	16	28	149	
Measured on group basis	1,593	97	–	1,593	1,597	

(1) Recorded debt balance.
(2) Debt balance net of accounting write-off, if made.
(3) Interest revenues recognized in the reported period, with respect to average balance of non-accruing debt in the period when the debt was classified as non-accruing.
(4) Reclassified.

Had the non-accruing debt accrued interest in conformity with the original terms and conditions, the Bank would have recognized interest revenues amounting to NIS 46 million.

Total average recorded debt balance for non-accruing debt in the three months ended March 31, 2022 amounted to NIS 1,981 million.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.A. Additional information about non-accruing debts[1]

	As of December 31, 2022 (audited)					
	Balance of non-accruing debts for which a provision has been recognized[1][2]	Provision balance	Balance of non-accruing debts for which a provision has not been recognized[1]	Total balance of non-accruing debts[1]	Contractual principal balance of non-accruing debts	Interest revenues recognized[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate	257	36	1	258	435	23
Commercial – other	907	162	17	924	1,196	11
Total commercial	**1,164**	**198**	**18**	**1,182**	**1,631**	**34**
Private individuals – residential mortgages	1,329	67	–	1,329	1,448	–
Private individuals – other	51	42	4	55	75	5
Total loans to the public – activity in Israel	**2,544**	**307**	**22**	**2,566**	**3,154**	**39**
Borrower activity overseas						
Total loans to the public – activity overseas	**11**	**1**	**–**	**11**	**67**	**–**
Total	**2,555**	**308**	**22**	**2,577**	**3,221**	**39**
Of which:						
Measured individually at present value of cash flows	1,077	191	9	1,086	1,601	
Measured individually at fair value of collateral	74	6	9	83	127	
Measured on group basis	1,404	111	4	1,408	1,493	

(1) Recorded debt balance.
(2) Debt balance net of accounting write-off, if made.
(3) Interest revenues recognized in the reported period, with respect to average balance of non-accruing debt in the period when the debt was classified as non-accruing.

Had the non-accruing debt accrued interest in conformity with the original terms and conditions, the Bank would have recognized interest revenues amounting to NIS 134 million.

Total average recorded debt balance for non-accruing debt in the year ended December 31, 2022 amounted to NIS 2,697 million.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.B. Additional information about debt subject to re-structuring of problematic debt

	March 31, 2023 (unaudited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing[1] in arrears 90 days or longer	Accruing[1] in arrears 30 to 89 days	Accruing[1] not in arrears	Total
Borrower activity in Israel					
Public – commercial					
Construction and real estate	34	–	–	1	35
Commercial – other	140	–	–	23	163
Total commercial	**174**	**–**	**–**	**24**	**198**
Private individuals – residential mortgages	37	–	–	–	37
Private individuals – other	35	–	–	21	56
Total loans to the public – activity in Israel	**246**	**–**	**–**	**45**	**291**
Borrower activity overseas					
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**
Total	**246**	**–**	**–**	**45**	**291**

	March 31, 2022 (unaudited)				
Borrower activity in Israel					
Public – commercial					
Construction and real estate	49	–	–	10	59
Commercial – other	111	–	–	10	121
Total commercial	**160**	**–**	**–**	**20**	**180**
Private individuals – residential mortgages[2]	27	–	–	–	27
Private individuals – other	38	–	–	34	72
Total loans to the public – activity in Israel	**225**	**–**	**–**	**54**	**279**
Borrower activity overseas					
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**
Total	**225**	**–**	**–**	**54**	**279**

(1) Accruing interest revenues.
(2) Reclassified.

As of March 31, 2023, debt subject to re-structuring of problematic debt, amounting to NIS 284 million, was classified as problematic debt. As of March 31, 2022 – amounting to NIS 279 million.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.B. Additional information about debt subject to re-structuring of problematic debt – continued

	As of December 31, 2022 (audited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing[1] in arrears 90 days or longer	Accruing[1] in arrears 30 to 89 days	Accruing[1] not in arrears	Total
Borrower activity in Israel					
Public – commercial					
Construction and real estate	40	–	–	1	41
Commercial – other	133	–	–	17	150
Total commercial	**173**	**–**	**–**	**18**	**191**
Private individuals – residential mortgages	36	–	–	–	36
Private individuals – other	34	–	–	24	58
Total loans to the public – activity in Israel	**243**	**–**	**–**	**42**	**285**
Borrower activity overseas					
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**
Total	**243**	**–**	**–**	**42**	**285**

(1) Accruing interest revenues.

As of December 31, 2022, debt subject to re-structuring of problematic debt, amounting to NIS 275 million, was classified as problematic debt.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.B. Additional information about debt subject to re-structuring of problematic debt – continued

	Restructurings made					
	For the three months ended					
	March 31, 2023 (unaudited)			March 31, 2022 (unaudited)		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate	9	–	–	16	2	2
Commercial – other	116	25	25	100	5	3
Total commercial	**125**	**25**	**25**	**116**	**7**	**5**
Private individuals – residential mortgages[1]	12	1	1	15	2	2
Private individuals – other	204	8	8	240	8	8
Total loans to the public – activity in Israel	**341**	**34**	**34**	**371**	**17**	**15**
Borrower activity overseas						
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Total	**341**	**34**	**34**	**371**	**17**	**15**

(1) Reclassified.

	Restructurings made which are in default[1]			
	For the three months ended			
	March 31, 2023 (unaudited)		March 31, 2022 (unaudited)	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate	5	1	7	–
Commercial – other	12	1	35	8
Total commercial	**17**	**2**	**42**	**8**
Private individuals – residential mortgages[2]	88	3	–	–
Private individuals – other	62	–	96	–
Total public – activity in Israel	**167**	**5**	**138**	**8**
Borrower activity overseas				
Total public – activity overseas	**–**	**–**	**–**	**–**
Total	**167**	**5**	**138**	**8**

(1) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears.
(2) Reclassified.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.C. Additional information about non-accruing credit in arrears

	As of March 31, 2023 (unaudited)							
	Not in arrears 90 days or longer	In arrears 90 to 180 days	In arrears 180 days to 1 year	In arrears over 1 year to 3 years	In arrears over 3 years to 5 years	In arrears over 5 years to 7 years	In arrears over 7 years	Total
Commercial	626	92	158	195	43	20	12	1,146
Residential mortgages	272	694	314	159	31	14	22	1,506
Private individuals – other	31	6	4	7	2	–	3	53
Total	**929**	**792**	**476**	**361**	**76**	**34**	**37**	**2,705**

	As of March 31, 2022 (unaudited)							
Commercial	549	119	132	188	50	23	19	1,080
Residential mortgages(1)	242	441	497	225	30	19	18	1,472
Private individuals – other	38	3	9	7	2	–	–	59
Total	**829**	**563**	**638**	**420**	**82**	**42**	**37**	**2,611**

	As of December 31, 2022 (audited)							
Commercial	685	99	173	153	52	20	11	1,193
Residential mortgages	240	441	403	173	31	13	28	1,329
Private individuals – other	34	6	3	8	2	–	2	55
Total	**959**	**546**	**579**	**334**	**85**	**33**	**41**	**2,577**

(1) Reclassified.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

3. Additional information about residential mortgages

Below is the composition of balances by loan-to-value ratio (LTV)[1], repayment type and interest type:

		March 31, 2023 (unaudited)			
		Balance of residential mortgages			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV	Up to 60%	124,869	3,572	78,448	3,085
	Over 60%	73,540	841	46,031	2,778
Junior lien or no lien		492	4	328	5,868
Total		**198,901**	**4,417**	**124,807**	**11,731**

		March 31, 2022 (unaudited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV	Up to 60%	116,405	3,319	73,700	4,302
	Over 60%	65,873	785	41,219	4,613
Junior lien or no lien		338	4	237	12,039
Total		**182,616**	**4,108**	**115,156**	**20,954**

		As of December 31, 2022 (audited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV	Up to 60%	122,818	3,510	77,040	3,012
	Over 60%	73,537	836	46,908	3,009
Junior lien or no lien		485	3	327	5,401
Total		**196,840**	**4,349**	**124,275**	**11,422**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Sale, purchase and syndication of loans to the public during the year

1. Sale and purchase of loans to the public

	In the three months ended March 31, 2023							
					Credit risk to the public sold	Purchased risk with respect to loans to the public [(1)]		
	Loans to the public sold in the period	Off-balance sheet credit risk[(2)] sold in the period	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance of sold loans at end of period, which is serviced by the banking corporation	Loans to the public purchased[(3)] in the period	Off-balance sheet credit risk[(2)] purchased in the period	Of which: Problematic credit
	Unaudited							
Commercial – other	25	–	–	–	–	–	–	–
Private individuals – residential mortgages	–	–	–	–	5,550	–	–	–
Private individuals – other	–	–	–	–	–	708	–	–
Total credit risk to public	**25**	**–**	**–**	**–**	**5,550**	**708**	**–**	**–**

	In the three months ended March 31, 2022							
					Credit risk to the public sold	Purchased risk with respect to loans to the public [(1)]		
	Loans to the public sold in the period	Off-balance sheet credit risk[(2)] sold in the period	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance of sold loans at end of period, which is serviced by the banking corporation	Loans to the public purchased[(3)] in the period	Off-balance sheet credit risk[(2)] purchased in the period	Of which: Problematic credit
	Unaudited							
Commercial – other	–	–	–	–	–	–	–	–
Private individuals – residential mortgages	–	–	–	–	4,271	–	–	–
Private individuals – other	–	–	–	–	–	582	–	–
Total credit risk to public	**–**	**–**	**–**	**–**	**4,271**	**582**	**–**	**–**

	In the year ended December 31, 2022							
					Credit risk to the public sold	Purchased risk with respect to loans to the public [(1)]		
	Loans to the public sold in the period	Off-balance sheet credit risk[(2)] sold in the period	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance of sold loans at end of period, which is serviced by the banking corporation	Loans to the public purchased[(3)] in the period	Off-balance sheet credit risk[(2)] purchased in the period	Of which: Problematic credit
	Audited							
Commercial – other	3	50	–	–	–	191	–	–
Private individuals – residential mortgages	1,899	–	–	–	5,720	–	–	–
Private individuals – other	1	–	–	8	–	2,115	–	–
Total credit risk to public	**1,903**	**50**	**–**	**8**	**5,720**	**2,306**	**–**	**–**

(1) Excluding short-term factoring transactions.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of borrower indebtedness, except for derivatives.
(3) Of which: Loans at 10% which are seller-guaranteed loans (for credit risk).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Sale, purchase and syndication of loans to the public during the year – continued

2. Syndications and participation in loan syndications

	As of March 31, 2023					
	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others(2)	
	Share of the banking corporation		Others' share		Share of the banking corporation	
	Loans to the public	Off-balance sheet credit risk(1)	Loans to the public	Off-balance sheet credit risk(1)	Loans to the public	Off-balance sheet credit risk(1)
	Unaudited					
Construction and real estate	1,630	–	1,884	–	581	101
Commercial – other	3,358	2,709	7,573	2,702	2,098	695
Total credit risk to public	**4,988**	**2,709**	**9,457**	**2,702**	**2,679**	**796**

	March 31, 2022					
	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others(2)	
	Share of the banking corporation		Others' share		Share of the banking corporation	
	Loans to the public	Off-balance sheet credit risk(1)	Loans to the public	Off-balance sheet credit risk(1)	Loans to the public	Off-balance sheet credit risk(1)
	Unaudited					
Construction and real estate	342	1	394	–	–	–
Commercial – other	2,138	660	5,831	1,098	708	536
Total credit risk to public	**2,480**	**661**	**6,225**	**1,098**	**708**	**536**

	December 31, 2022					
	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others(2)	
	Share of the banking corporation		Others' share		Share of the banking corporation	
	Loans to the public	Off-balance sheet credit risk(1)	Loans to the public	Off-balance sheet credit risk(1)	Loans to the public	Off-balance sheet credit risk(1)
	Audited					
Construction and real estate	1,635	1	1,884	–	572	108
Commercial – other	2,757	2,534	6,889	2,671	2,086	552
Total credit risk to public	**4,392**	**2,535**	**8,773**	**2,671**	**2,658**	**660**

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of borrower indebtedness, except for derivatives.
(2) Excludes syndication transactions initiated by others to extend credit to foreign governments, amounting to NIS 653 million as of March 31, 2023 (as of March 31, 2022: NIS 352 million; as of December 31, 2022: NIS 274 million).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at end of quarter

		March 31	December 31		March 31	December 31
	2023	2022	2022	2023	2022	2022
			Balance[1]			Provision for credit losses
		(Unaudited)	(Audited)		(Unaudited)	(Audited)
Transactions in which the balance represents a credit risk:						
– Un-utilized debitory account and other credit facilities in accounts available on demand	23,762	20,993	21,772	29	23	23
– Guarantees to home buyers	17,529	17,666	19,069	7	10	10
– Irrevocable commitments for loans approved but not yet granted[3]	21,602	32,559	21,029	24	32	35
– Unutilized revolving credit card facilities	11,761	10,991	11,730	12	7	11
– Commitments to issue guarantees	8,872	9,747	8,122	1	1	2
– Guarantees and other liabilities[2]	12,451	10,999	12,881	70	88	101
– Loan guarantees	3,588	3,296	3,531	36	38	36
– Documentary credit	405	617	315	2	14	2

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 46 million. (On March 31, 2022 and on December 31, 2022: NIS 85 million and NIS 70 million, respectively).

(3) Includes effect of extension of approval in principle for residential mortgages, from 12 to 24 days, pursuant to update to Proper Conduct of Banking Business Directive 451 regarding "Procedures for extending residential mortgages".

Note 14 – Assets and Liabilities by Linkage Basis

As of March 31, 2023 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	**CPI-linked**	**USD**	**EUR**	**Other currencies**	**Non-monetary items[2]**	Total
Assets							
Cash and deposits with banks	71,081	–	18,598	417	144	–	90,240
Securities	8,708	4,605	5,135	419	–	481	19,348
Securities borrowed or bought in conjunction with resale agreements	–	15	–	–	–	–	15
Loans to the public, net[3]	217,756	78,230	9,087	4,622	2,624	–	312,319
Loans to Governments	6	–	236	289	–	–	531
Investments in associated companies	120	–	–	–	–	73	193
Buildings and equipment	–	–	–	–	–	1,399	1,399
Intangible assets and goodwill	–	–	–	–	–	170	170
Assets with respect to derivatives	1,901	144	3,135	978	99	–	6,257
Other assets	2,089	250	376	13	28	882	3,638
Total assets	**301,661**	**83,244**	**36,567**	**6,738**	**2,895**	**3,005**	**434,110**
Liabilities							
Deposits from the public	258,079	24,287	56,551	6,560	2,992	–	348,469
Deposits from banks	5,288	–	1,716	243	37	–	7,284
Deposits from the Government	16	2	14	–	–	–	32
Bonds and subordinated notes	6,520	25,887	2,201	–	–	–	34,608
Liabilities with respect to derivatives	2,001	177	3,042	684	84	–	5,988
Other liabilities	7,766	2,842	281	10	46	802	11,747
Total liabilities	**279,670**	**53,195**	**63,805**	**7,497**	**3,159**	**802**	**408,128**
Difference	**21,991**	**30,049**	**(27,238)**	**(759)**	**(264)**	**2,203**	**25,982**
Impact of hedging derivatives:							
Derivative instruments (other than options)	1,060	(1,060)	–	–	–	–	–
Non-hedging financial derivatives:							
Derivative instruments (other than options)	(27,155)	(580)	27,167	321	247	–	–
Net in-the-money options (in terms of underlying asset)	(584)	–	390	216	(22)	–	–
Net out-of-the-money options (in terms of underlying asset)	29	–	(138)	124	(15)	–	–
Grand total	**(4,659)**	**28,409**	**181**	**(98)**	**(54)**	**2,203**	**25,982**
Net in-the-money options (capitalized par value)	(636)	–	513	150	(27)	–	–
Net out-of-the-money options (capitalized par value)	245	–	(94)	(114)	(37)	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the different linkage bases.

Note 14 – Assets and Liabilities by Linkage Basis – continued

As of March 31, 2022 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	**CPI-linked**	**USD**	**EUR**	**Other currencies**	**Non-monetary items[2]**	**Total**
Assets							
Cash and deposits with banks	77,296	–	6,658	527	185	–	84,666
Securities	7,130	1,425	7,237	450	–	725	16,967
Securities borrowed or bought in conjunction with resale agreements	306	236	–	–	–	–	542
Loans to the public, net[3]	199,482	71,054	7,007	3,410	1,964	–	282,917
Loans to Governments	78	–	253	126	–	–	457
Investments in associated companies	35	–	–	–	–	74	109
Buildings and equipment	–	–	–	–	–	1,400	1,400
Intangible assets and goodwill	–	–	–	–	–	201	201
Assets with respect to derivatives	1,963	104	1,066	185	33	2	3,353
Other assets	2,036	408	181	1	37	770	3,433
Total assets	**288,326**	**73,227**	**22,402**	**4,699**	**2,219**	**3,172**	**394,045**
Liabilities							
Deposits from the public	235,628	22,733	46,204	5,521	2,567	–	312,653
Deposits from banks	5,429	–	1,261	142	18	–	6,850
Deposits from the Government	43	2	21	–	–	–	66
Bonds and subordinated notes	7,024	27,087	1,934	–	–	–	36,045
Liabilities with respect to derivatives	2,022	182	572	135	27	2	2,940
Other liabilities	8,713	3,172	158	1	27	1,236	13,307
Total liabilities	**258,859**	**53,176**	**50,150**	**5,799**	**2,639**	**1,238**	**371,861**
Difference	**29,467**	**20,051**	**(27,748)**	**(1,100)**	**(420)**	**1,934**	**22,184**
Impact of hedging derivatives:							
Derivative instruments (other than options)	2,088	(2,088)	–	–	–	–	–
Non-hedging financial derivatives:							
Derivative instruments (other than options)	(28,835)	(711)	28,308	909	329	–	–
Net in-the-money options (in terms of underlying asset)	(71)	–	(123)	204	(10)	–	–
Net out-of-the-money options (in terms of underlying asset)	190	–	(179)	(11)	–	–	–
Grand total	**2,839**	**17,252**	**258**	**2**	**(101)**	**1,934**	**22,184**
Net in-the-money options (capitalized par value)	266	–	(152)	(79)	(35)	–	–
Net out-of-the-money options (capitalized par value)	(372)	–	226	124	22	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the different linkage bases.

Note 14 – Assets and Liabilities by Linkage Basis – continued

As of December 31, 2022 (audited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	75,216	–	17,624	490	343	–	93,673
Securities	6,645	2,498	4,935	414	–	652	15,144
Securities borrowed or bought in conjunction with resale agreements	269	46	–	–	–	–	315
Loans to the public, net[3]	215,424	76,228	8,733	4,687	2,400	–	307,472
Loans to Governments	7	–	198	113	–	–	318
Investments in associated companies	35	–	–	–	–	92	127
Buildings and equipment	–	–	–	–	–	1,503	1,503
Intangible assets and goodwill	–	–	–	–	–	178	178
Assets with respect to derivatives	1,595	115	3,025	825	229	–	5,789
Other assets	2,307	255	301	8	30	872	3,773
Total assets	**301,498**	**79,142**	**34,816**	**6,537**	**3,002**	**3,297**	**428,292**
Liabilities							
Deposits from the public	260,411	21,767	53,475	5,916	2,945	–	344,514
Deposits from banks	5,050	–	1,454	176	314	–	6,994
Deposits from the Government	31	2	14	–	–	–	47
Bonds and subordinated notes	5,442	25,718	2,127	–	–	–	33,287
Liabilities with respect to derivatives	1,638	164	2,642	590	180	–	5,214
Other liabilities	9,237	2,852	228	1	66	984	13,368
Total liabilities	**281,809**	**50,503**	**59,940**	**6,683**	**3,505**	**984**	**403,424**
Difference	**19,689**	**28,639**	**(25,124)**	**(146)**	**(503)**	**2,313**	**24,868**
Impact of hedging derivatives:							
Derivative instruments (other than options)	1,264	(1,264)	–	–	–	–	–
Non-hedging financial derivatives:							
Derivative instruments (other than options)	(24,013)	(594)	24,129	(54)	532	–	–
Net in-the-money options (in terms of underlying asset)	(1,183)	–	1,115	122	(54)	–	–
Net out-of-the-money options (in terms of underlying asset)	(36)	–	41	40	(45)	–	–
Grand total	**(4,279)**	**26,781**	**161**	**(38)**	**(70)**	**2,313**	**24,868**
Net in-the-money options (capitalized par value)	(1,856)	–	1,825	20	11	–	–
Net out-of-the-money options (capitalized par value)	1,853	–	(1,756)	(79)	(18)	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the different linkage bases.

Note 15 – Balances and estimates of fair value of financial instruments

Reported amounts (NIS in millions)

1) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	March 31, 2023 (unaudited)				
					Fair value
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	90,240	26,885	59,805	4,250	90,940
Securities(3)	19,348	14,777	4,087	323	19,187
Securities borrowed or purchased in resale agreements	15	15	–	–	15
Loans to the public, net	312,319	1,986	10,197	(5)293,287	305,470
Loans to Governments	531	–	–	529	529
Investments in associated companies	193	–	–	193	193
Assets with respect to derivatives	6,257	831	4,930	(2)496	6,257
Other financial assets	579	7	–	572	579
Total financial assets	**(4)429,482**	**44,501**	**79,019**	**299,650**	**423,170**
Financial liabilities					
Deposits from the public	348,469	3,952	100,170	(5)241,379	345,501
Deposits from banks	7,284	–	651	6,860	7,511
Deposits from the Government	32	–	–	30	30
Bonds and subordinated notes	34,608	29,830	–	2,955	32,785
Liabilities with respect to derivatives	5,988	830	4,523	(2)635	5,988
Other financial liabilities	7,026	1,369	1,660	3,991	7,020
Total financial liabilities	**(4)403,407**	**35,981**	**107,004**	**255,850**	**398,835**

(1) Level 1 – Fair value measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 106,788 million and NIS 118,594 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net and in deposits from the public, amounting to NIS 9 million and NIS 6 million, respectively.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued:

	March 31, 2022 (unaudited)				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	84,666	18,561	61,509	4,527	84,597
Securities(3)	16,967	12,528	4,048	378	16,954
Securities borrowed or purchased in resale agreements	542	542	–	–	542
Loans to the public, net	282,917	2,059	9,301	(5)273,667	285,027
Loans to Governments	457	–	–	457	457
Investments in associated companies	109	–	–	109	109
Assets with respect to derivatives	3,353	245	1,602	(2)1,506	3,353
Other financial assets	1,133	8	–	1,125	1,133
Total financial assets	**(4)390,144**	**33,943**	**76,460**	**281,769**	**392,172**
Financial liabilities					
Deposits from the public	312,653	2,059	115,372	195,457	312,888
Deposits from banks	6,850	–	886	5,964	6,850
Deposits from the Government	66	–	–	66	66
Bonds and subordinated notes	36,045	35,332	2	1,454	36,788
Liabilities with respect to derivatives	2,940	248	1,542	(2)1,150	2,940
Other financial liabilities	9,719	1,578	1,830	6,310	9,718
Total financial liabilities	**(4)368,273**	**39,217**	**119,632**	**210,401**	**369,250**

(1) Level 1 – Fair value measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 95,076 million and NIS 127,914 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 9 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued:

	As of December 31, 2022 (audited)				
					Fair value
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	93,673	24,826	64,637	4,206	93,669
Securities[(3)]	15,144	10,607	4,018	367	14,992
Securities borrowed or purchased in resale agreements	315	315	–	–	315
Loans to the public, net	307,472	1,917	8,619	[(5)]289,942	300,478
Loans to Governments	318	–	–	315	315
Investments in associated companies	127	–	–	127	127
Assets with respect to derivatives	5,789	640	4,742	[(2)]407	5,789
Other financial assets	772	7	–	577	584
Total financial assets	**[(4)]423,610**	**38,312**	**82,016**	**295,941**	**416,269**
Financial liabilities					
Deposits from the public	344,514	2,657	110,551	[(5)]228,119	341,327
Deposits from banks	6,994	–	298	6,675	6,973
Deposits from the Government	47	–	–	45	45
Bonds and subordinated notes	33,287	28,794	–	2,676	31,470
Liabilities with respect to derivatives	5,214	625	4,148	[(2)]441	5,214
Other financial liabilities	8,641	1,145	1,982	5,324	8,451
Total financial liabilities	**[(4)]398,697**	**33,221**	**116,979**	**243,280**	**393,480**

(1) Level 1 – Fair value measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 102,730 million and NIS 129,830 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net and in deposits from the public, amounting to NIS 9 million and NIS 7 million, respectively.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	March 31, 2023 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Bonds available for sale				
Bonds:				
of Government of Israel	2,655	3,455	–	6,110
Of foreign governments	1,388	–	–	1,388
Of banks and financial institutions in Israel	370	38	9	417
Of banks and financial institutions overseas	11	261	–	272
Asset-backed (ABS)	1	55	–	56
Of others in Israel	769	85	2	856
Of others overseas	196	4	3	203
Shares not held for trading	211	60	24	295
Securities held for trading:				
Bonds of the Government of Israel	6,070	18	–	6,088
Bonds of overseas governments	–	111	–	111
Bonds of financial institutions in Israel	1	–	–	1
Bonds of others in Israel	22	–	–	22
Bonds of foreign others	37	–	–	37
Shares held for trading	17	–	–	17
Securities borrowed or purchased in resale agreements	15	–	–	15
Credit with respect to loans to customers	1,986	–	–	1,986
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	68	77	145
Other	–	1,850	3	1,853
Currency contracts	75	2,989	411	3,475
Contracts for shares	749	23	2	774
Commodities and other contracts	7	–	3	10
Other financial assets	7	–	–	7
Other	–	–	9	9
Total assets	**14,587**	**9,017**	**543**	**24,147**
Liabilities				
Deposits with respect to borrowing from customers	3,952	–	–	3,952
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	121	56	177
Other	–	1,475	60	1,535
Currency contracts	74	2,908	504	3,486
Contracts for shares	749	10	15	774
Commodities and other contracts	7	9	–	16
Other financial liabilities	1,369	–	–	1,369
Other	–	–	6	6
Total liabilities	**6,151**	**4,523**	**641**	**11,315**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

				March 31, 2022 (unaudited)
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Bonds available for sale				
Bonds:				
of Government of Israel	4,021	3,528	–	7,549
Of foreign governments	3,681	–	–	3,681
Of banks and financial institutions in Israel	375	22	–	397
Of banks and financial institutions overseas	9	178	23	210
Asset-backed (ABS)	–	35	–	35
Of others in Israel	513	147	22	682
Of others overseas	212	19	3	234
Investments in shares not held for trading	273	103	21	397
Securities held for trading:				
Bonds of the Government of Israel	754	16	–	770
Bonds of financial institutions in Israel	6	–	–	6
Bonds of others in Israel	30	–	–	30
Bonds of foreign others	43	–	–	43
Shares	21	–	–	21
Securities borrowed or purchased in resale agreements	542	–	–	542
Credit with respect to loans to customers	2,059	–	–	2,059
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	59	47	106
Other	–	706	24	730
Currency contracts	75	813	1,047	1,935
Contracts for shares	168	24	386	578
Commodities and other contracts	2	–	2	4
Other financial assets	8	–	–	8
Other	–	–	8	8
Total assets	**12,792**	**5,650**	**1,583**	**20,025**
Liabilities				
Deposits with respect to borrowing from customers	2,059	–	–	2,059
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	107	75	182
Other	–	660	83	743
Currency contracts	77	775	943	1,795
Contracts for shares	169	–	42	211
Commodities and other contracts	2	–	7	9
Other financial liabilities	1,578	–	–	1,578
Other	–	–	9	9
Total liabilities	**3,885**	**1,542**	**1,159**	**6,586**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	As of December 31, 2022 (audited)			
	Prices quoted on active market (level 1)	**Other significant observed data (level 2)**	**Non-observed significant data (level 3)**	**Total fair value**
Assets				
Bonds available for sale				
Bonds:				
of Government of Israel	1,593	3,356	–	4,949
Of foreign governments	1,330	–	–	1,330
Of banks and financial institutions in Israel	374	9	–	383
Of banks and financial institutions overseas	10	252	–	262
Asset-backed (ABS)	–	55	–	55
Of others in Israel	680	147	11	838
Of others overseas	205	9	3	217
Shares not held for trading	220	63	23	306
Securities held for trading:				
Bonds of the Government of Israel	2,749	–	–	2,749
Bonds of overseas governments	–	127	–	127
Bonds of financial institutions in Israel	1	–	–	1
Bonds of others in Israel	25	–	–	25
Bonds of foreign others	42	–	–	42
Shares held for trading	20	–	–	20
Securities borrowed or purchased in resale agreements	315	–	–	315
Credit with respect to loans to customers	1,917	–	–	1,917
Assets with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	–	60	56	116
Other	–	1,998	3	2,001
Currency contracts	59	2,632	307	2,998
Contracts for shares	577	52	39	668
Commodities and other contracts	4	–	2	6
Other financial assets	7	–	–	7
Other	–	–	9	9
Total assets	**10,128**	**8,760**	**453**	**19,341**
Liabilities				
Deposits with respect to borrowing from customers	2,657	–	–	2,657
Liabilities with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	–	103	61	164
Other	–	1,539	64	1,603
Currency contracts	45	2,430	233	2,708
Contracts for shares	576	66	83	725
Commodities and other contracts	4	10	–	14
Other financial liabilities	1,145	–	–	1,145
Other	–	–	7	7
Total liabilities	**4,427**	**4,148**	**448**	**9,023**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	March 31, 2023 (unaudited)				For the three months ended March 31, 2023
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)
Non-accruing credit whose collection is contingent on collateral	–	–	59	59	(7)
Investments in shares for which no fair value is available	–	–	281	281	–

	March 31, 2022 (unaudited)				For the three months ended March 31, 2022
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)
Non-accruing credit whose collection is contingent on collateral	–	5	23	28	(2)
Investments in shares for which no fair value is available	–	–	307	307	7

	As of December 31, 2022 (audited)				For the year ended December 31, 2022
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)
Non-accruing credit whose collection is contingent on collateral	–	–	83	83	(8)
Investments in shares for which no fair value is available	–	–	326	326	32

(1) Level 1 – Fair value measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended March 31, 2023 (Unaudited)									
		Net realized / unrealized gains (losses) included[1]								
	Fair value as of December 31, 2022	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[3]	Transfers from Level 3[3]	Fair value as of March 31, 2023	Unrealized gains (losses) with respect to instruments held as of March 31, 2023
Assets										
Securities available for sale										
Bonds:										
Of financial institutions in Israel	–	–	–	–	–	–	9	–	9	–
Of others in Israel	11	8	(6)	–	–	(11)	–	–	2	–
Of others overseas	3	–	–	–	–	–	–	–	3	–
Shares not held for trading	23	1	–	–	–	–	–	–	24	1
Assets with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	56	13	–	2	–	–	6	–	77	33
Other	3	2	–	–	–	(2)	–	–	3	3
Currency contracts	307	106	–	166	–	(168)	–	–	411	198
Contracts for shares	39	(8)	–	1	–	(30)	–	–	2	–
Commodities and other contracts	2	1	–	–	–	–	–	–	3	–
Other	9	–	–	–	–	–	–	–	9	–
Total assets	**453**	**123**	**(6)**	**169**	**–**	**(211)**	**15**	**–**	**543**	**235**
Liabilities										
Liabilities with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	61	10	–	1	–	(19)	3	–	56	(2)
Other	64	(4)	–	–	–	–	–	–	60	(62)
Currency contracts	233	159	–	257	–	(145)	–	–	504	(329)
Contracts for shares	83	(1)	–	4	–	(71)	–	–	15	–
Commodities and other contracts	–	–	–	–	–	–	–	–	–	–
Other	7	(1)	–	–	–	–	–	–	6	–
Total liabilities	**448**	**163**	**–**	**262**	**–**	**(235)**	**3**	**–**	**641**	**(393)**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed. Transfers from Level 3 result from the opposite situation.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended March 31, 2022 (Unaudited)								
		Net realized / unrealized gains (losses) included[1]							
	Fair value as of December 31, 2021	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[3]	Fair value as of March 31, 2022	Unrealized gains (losses) with respect to instruments held as of March 31, 2022
Assets									
Securities available for sale									
Bonds:									
Of foreign financial institutions	26	–	–	–	(3)	–	–	23	–
Of others in Israel	19	–	3	–	–	–	–	22	4
Of others overseas	12	–	–	–	–	(9)	–	3	–
Securities held for trading									
Of others in Israel	–	–	–	–	–	–	–	–	–
Shares not held for trading	15	6	–	–	–	–	–	21	6
Assets with respect to derivatives[2]									
Interest contracts:									
NIS / CPI	39	9	–	1	–	(13)	11	47	24
Other	78	(57)	–	4	–	(1)	–	24	5
Currency contracts	718	115	–	520	–	(306)	–	1,047	386
Contracts for shares	423	90	–	25	–	(152)	–	386	–
Commodities and other contracts	2	–	–	–	–	–	–	2	–
Other	7	1	–	–	–	–	–	8	–
Total assets	**1,339**	**164**	**3**	**550**	**(3)**	**(481)**	**11**	**1,583**	**425**
Liabilities									
Liabilities with respect to derivatives[2]									
Interest contracts:									
NIS / CPI	46	28	–	3	–	(10)	8	75	(37)
Other	117	(35)	–	2	–	(1)	–	83	(41)
Currency contracts	665	224	–	534	–	(480)	–	943	(598)
Contracts for shares	12	1	–	40	–	(11)	–	42	–
Commodities and other contracts	–	7	–	–	–	–	–	7	–
Other	–	9	–	–	–	–	–	9	–
Total liabilities	**840**	**234**	**–**	**579**	**–**	**(502)**	**8**	**1,159**	**(676)**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed. Transfers from Level 3 result from the opposite situation.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 – Continued:

	For the year ended December 31, 2022 (audited)									
		Net realized / unrealized gains (losses) included[1]								
	Fair value as of December 31, 2021	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[3]	Transfers from Level 3[3]	Fair value as of December 31, 2022	Unrealized gains (losses) with respect to instruments held as of December 31, 2022
Assets										
Securities available for sale										
Bonds:										
Of foreign financial institutions	26	3	–	–	(3)	–	–	(26)	–	–
Of others in Israel	19	4	–	–	–	(4)	–	(8)	11	3
Of others overseas	12	–	–	–	–	(9)	–	–	3	–
Shares not held for trading	15	2	–	6	–	–	–	–	23	(2)
Assets with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	39	9	–	9	–	(19)	18	–	56	23
Other	78	(109)	–	37	–	(3)	–	–	3	2
Currency contracts	718	116	–	1,952	–	(2,475)	(1)	(3)	307	162
Contracts for shares	423	52	–	35	–	(471)	–	–	39	–
Commodities and other contracts	2	–	–	–	–	–	–	–	2	–
Other	7	3	–	–	–	–	(1)	–	9	–
Total assets	**1,339**	**80**	**–**	**2,039**	**(3)**	**(2,981)**	**16**	**(37)**	**453**	**188**
Liabilities										
Liabilities with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	46	30	–	5	–	(54)	34	–	61	(2)
Other	117	(58)	–	7	–	(2)	–	–	64	(66)
Currency contracts	665	517	–	1,151	–	(2,100)	–	–	233	(99)
Contracts for shares	12	50	–	149	–	(128)	–	–	83	–
Other	–	10	–	–	–	–	(3)	–	7	–
Total liabilities	**840**	**549**	**–**	**1,312**	**–**	**(2,284)**	**31**	**–**	**448**	**(167)**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed. Transfers from Level 3 result from the opposite situation.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of March 31, 2023	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	24	Quote from counter-party to the transaction			
Securities available for sale					
Bonds of financial institutions in Israel	9	Cash flows discounting	Price	48,939.79	48,939.79
Bonds of others in Israel	2	NAV (Net Asset Value) model	Price	13.30	13.30
Bonds of foreign others	3	Cash flows discounting	Price	15.00-62.10	23.63
Assets with respect to derivative instruments:					
NIS / CPI	34	Cash flows discounting	Inflationary expectations	0.17%-3.01%	2.82%
Contracts for shares	1	Options pricing model	Standard deviation per share	38.71%-170.65%	89.06%
Other	470	Cash flows discounting	Counter-party credit quality	0.30%-3.10%	2.16%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	55	Cash flows discounting	Inflationary expectations	2.70%-3.01%	2.84%
Other	586	Cash flows discounting	Counter-party credit quality	0.30%-3.60%	1.84%

	Fair value as of March 31, 2022	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	21	Quote from counter-party to the transaction			
Securities available for sale					
Bonds of others in Israel	2	Cash flows discounting	Price	5.60-59.06	16.18
	10	NAV (Net Asset Value) model	Price	63.50	63.50
Bonds of foreign others	3	Cash flows discounting	Price	15.00-72.50	24.47
Securities held for trading					
Bonds of others in Israel	2	Cash flows discounting	Price	7.54	7.54
Assets with respect to derivative instruments:					
NIS / CPI	25	Cash flows discounting	Inflationary expectations	0.13%-3.40%	0.94%
Foreign currency	39	Cash flows discounting	Counter-party credit quality		
Contracts for shares	1	Options pricing model	Standard deviation per share	30.35%-121.83%	117.26%
Other	1,449	Cash flows discounting	Counter-party credit quality	0.30%-2.65%	1.77%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	52	Cash flows discounting	Inflationary expectations	2.65%-3.34%	2.78%
Other	1,107	Cash flows discounting	Counter-party credit quality	0.30%-3.60%	1.67%

	Fair value as of December 31, 2022	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	23	Quote from counter-party to the transaction			
Securities available for sale					
Bonds of others in Israel	11	NAV (Net Asset Value) model	Price	63.50	63.50
Bonds of foreign others	3	Cash flows discounting	Price	15.00-72.25	24.25
Assets with respect to derivative instruments:					
NIS / CPI	23	Cash flows discounting	Inflationary expectations	2.36%-2.72%	2.61%
Other	393	Cash flows discounting	Counter-party credit quality	0.30%-3.10%	2.19%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	60	Cash flows discounting	Inflationary expectations	2.36%-2.72%	2.55%
Other	388	Cash flows discounting	Counter-party credit quality	0.30%-3.60%	1.84%

Note 15 – Balances and estimates of fair value of financial instruments – continued

E. Information regarding uncertainty of fair value measurements to changes in unobserved data

The main valuation technique of significant unobserved data used in measurement of fair value of assets and liabilities at Level 3 is Discounted Cash Flow. The future cash flows for the instrument is derived from the agreement with the counter-party. The discount rate used to discount the cash flow reflects the Bank's assumptions.

The primary unobserved data used in measurement of fair value of bonds is the price of the bonds.

F. Elect;ion of fair value option

Should the Bank elect the fair value option, changes to fair value of investments in certain bonds would be recorded to profit and loss, with bonds classified under the portfolio held for trading, although they had not been purchased for this purpose.

The election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of March 31, 2023, March 31, 2022 and December 31, 2022, the Bank did not select the fair value option.

Note 16 – Events after the balance sheet date

- On May 16, 2023, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 410.1 million, or 30% of earnings in the first quarter of 2023. This is in conformity with the Bank's dividend policy and so as to enable continued future growth of the Bank, even duly noting the uncertainty with regard to developments in the macro-economic environment. The dividends are 1593.5% of issued share capital, i.e. NIS 1.5935 per NIS 0.1 par value share. The effective date for dividends payment is May 24, 2023 and the payment date is June 1, 2023. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount will be deducted from retained earnings in the second quarter of 2023.

- On July 26, 2021, the Bank's Board of Directors, after receiving approval by the Remuneration Committee, approved the offering of options to the Bank President & CEO and to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to key employees and other managers at the Bank and at Bank subsidiaries, as well as pools for option warrant issuance in two additional annual lots in 2022 and in 2023 (hereinafter: "the Outline"). See Note 23 to the 2021 financial statements for additional information.

  On May 3, 2023, after the balance sheet date, the Board of Directors approved, after approval by the Remuneration Committee, allocation of options pursuant to the 2023 outline, to the Bank President & CEO, to Bank officers, to key employees and to other managers at the Bank and at Bank subsidiaries, as follows:

  - Option plan 1 – up to 35,355 options 1 to be awarded to the Bank President & CEO, exercisable for up to 9,049 Bank ordinary shares of NIS 0.1 par value each.
  - Option plan A – up to 300,809 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 76,995 Bank ordinary shares of NIS 0.1 par value each.
  - Option plan B – up to 135,709 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 34,736 Bank ordinary shares of NIS 0.1 par value each.
  - Option plan C – up to 554,600 options C to be awarded to up to nineteen key Bank employees and up to seventeen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 141,955 Bank ordinary shares of NIS 0.1 par value each.
  - Option plan D – up to 903,975 options D to be awarded to up to sixty-seven managers employed by the Bank subject to individual employment contracts and up to thirty-one other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 231,380 Bank ordinary shares of NIS 0.1 par value each.
  - Option plan E – Up to 1,512,950 options E to be awarded to up to two hundred and sixty-three managers employed by the Bank subject to collective bargaining agreements, and to up to twenty-one managers at Bank subsidiaries, exercisable for up to 387,252 Bank ordinary shares of NIS 0.1 par value each.

  The number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan in the Outline, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, inter alia, on the closing price cap of NIS 154.40 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

  In case of dividend distribution, bonus share distribution, rights issuance, split or reverse split of share capital and re-structuring at the Bank, the adjustments shall be made as set forth in the Outline employee offering.

  The options issued in the name of the Trustee on behalf of the Bank President & CEO, pursuant to options plan 1, may be exercised as from the second anniversary of the issue date and would expire 18 months after the vesting date, as defined in the Memorandum.

  The options to be issued in the name of the Trustee pursuant to option plans A, B or C shall be divided into three equal lots; The lots may be exercised as from two years after (1) the issue date; (2) April 1, 2026; and (3) April 1, 2027; Each lot shall expire 18 months after each of said dates.

  The options to be issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Outline.

  An offeree's eligibility for options pursuant to each of option plans would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

Note 16 – Events after the balance sheet date – continued

Moreover, eligibility for options shall be determined based on the following criteria, as set forth in the Outline:

- Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and based on a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer, all as specified in the outline.
- Eligibility of offerees to options C and options D, with respect to any bonus year, would be determined exclusively based on the quantitative benchmarks. Eligibility of offerees to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.3 of the Memorandum.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and the core deposit ratio.

The exercise price for each option to be issued pursuant to each of the plans is NIS 114.88 plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors of the issuance of options to the offerees and until the known CPI upon exercise of the option by the offeree. The exercise price is determined based on the average closing price of Bank ordinary shares on the stock exchange over the thirty trading days preceding the approval date by the Board of Directors. Accordingly, note that on the exercise date, an offeree would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares to be actually allotted to the offeree.

In order to calculate the fair value as of the approval date of option issuance by the Board of Directors, as noted above, the terms and conditions of the option plans and the data and assumptions listed in the Outline have been taken into account.

Based on the assumptions listed in the Outline, the fair value of each option warrant to be awarded pursuant to each option plan, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options 1 – NIS 16.21;
- Options A – NIS 16.01;
- Options B – NIS 16.01;
- Options C – NIS 16.00;
- Options D and E – NIS 16.97.

The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 57 million.

The theoretical lot value shall be recognized in Bank accounts over the vesting period, i.e. from the second quarter of 2023 through the end of the year.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

Bank Mizrahi Tefahot

Corporate governance, audit, other information about the Bank and its management

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Corporate governance

Board of Directors and management

Board of Directors

During the first quarter of 2023, the Bank Board of Directors held 4 plenary meetings. Furthermore, in this quarter 15 meetings of Board committees and 2 Board member workshops took place.

In the first quarter of 2023 through the issue date of the financial statements, there were no changes in composition of the Board of Directors.

Bank management and senior officers

Ms. Meital Harush, who served as Manager, LIVE space and Direct Banking Sector of the Bank for the past 7 years, was appointed VP and Manager, Human Capital and Resources Division as from April 1, 2023, replacing Mr. Nissan Levy who completed their term in office.
Mr. Ofer Horvitz, who served as Bank Secretary and Manager, Bank Headquarters for the past 3 years, was appointed VP and Manager, Risk Control Division as from April 1, 2023, replacing Mr. Doron Klauzner who completed their term in office.
Mr. Micha Argaman, who serves as Deputy Manager, Human Capital, Resources and Operations Division of the Bank for the past 3 years, was appointed executive manager of the Banking Operation Sector as from April 1, 2023.
Mr. Tal Ben Ari, who served as VP and Manager, Finance Division of Union Bank for the past 6 years, was appointed executive manager of the Enterprise-Wide Project Department as from April 1, 2023.
Mr. Hanan Kikuzashvili, who served as Deputy Bank Secretary for the past 3 years, was appointed Bank Secretary and Manager, Bank Headquarters as from April 1, 2023, replacing Mr. Ofer Horvitz who was appointed Manager, Risk Control Division.

Internal Auditor

Information about Internal Audit at the Group, including professional standards applied by Internal Audit, the annual and multi-annual work plan and considerations in setting this plan, the scope of work of the Internal Auditor and their team and reporting of the Internal Auditor's findings are provided in chapter "Corporate governance, audit, other information about the Bank and its management" of the 2022 annual report.

In the reported period there were no material changes to this information.

Transactions with controlling shareholders and related parties

Transactions with related parties were conducted in the normal course of business, at market terms and at terms and conditions similar to those of transactions with parties not related to the Bank.

Legislation and supervisory directives applicable to Bank Group operations

Laws and regulations

Banking Regulations (Licensing) (Bank with large-scale operations), 2023

On January 30, 2023, the Knesset Finance Committee approved Banking Regulations (Licensing) (Bank with large-scale operations), 2023, which *inter alia* revised the definition of a bank with large-scale operations, which now also applies to the Bank.

According to the Regulations, the Bank would be required to reduce credit card facilities by 25%, from January 31, 2027 through January 31, 2030, compared to the relevant facilities (facilities in excess of NIS 10,000) for credit cards in 2015. The Minister of Finance announced their intention to eliminate this restriction in the upcoming Arrangements Law.

Moreover, as from January 31, 2026, the share of new cards issued by a credit card issuer of a single bank may not exceed 52%. This is in effect for 3 years.

Supervisor of Banks

Circulars and public reporting directives

Open Banking standard implementation in Israel

On February 24, 2020, the Bank of Israel issued a circular containing Proper Conduct of Banking Business Directive 368 "Implementation of Open Banking Standard". The circular describes the evolution of open banking around the world and the standards created, and elaborates legislation in Israel that has resulted in the Supervisor of Banks promoting the open banking project and issuing a directive in this regard. The directive includes instruction for implementation of the open banking standard, rules for quality of service and customer consent, and guidelines for information architecture and security. The directive applies to banks and credit card companies operating in Israel, with respect to individual accounts. The directive further stipulates instruction with respect to corporate governance, including responsibilities of the Board of Directors and senior management in setting policy, appropriate resource allocation and supervision of implementation of the management framework for open banking. The effective start date of this directive is December 31, 2020, except for information about debit cards which is effective as from July 1, 2021 and information about credit, deposits and securities which is effective as from December 31, 2021.

On April 7, 2020, the Bank of Israel issued a circular in view of developments in the Corona Virus outbreak, with revised effective start dates for Proper Conduct of Banking Business Directive 368. The effective start date of this directive was revised to March 31, 2021; the effective start date for information about debit cards was revised to October 10, 2021 and the effective start date for information about credit, deposits and securities was revised to March 31, 2022.

On April 5, 2021, the Bank of Israel issued a circular which delays by a few months the planned implementation, in order to allow for proper reference to various issues raised during preparations for implementation, due to the wish to establish the open banking system. Stage 2 was delayed to January 31, 2022 (from October 10, 2021) and stage 3 was delayed to May 31, 2022 (from March 31, 2022). This delay should allow the banking system to stabilize the services in the system, so that system availability would be robust and its services would provide a response for market demand.

On January 17, 2022, the Bank of Israel issued a circular regarding "Implementation of open banking standard in Israel", which updates the effective start dates of mandatory provision of access to information about customer activity in debit cards, and mandatory provision of access to the customer's checking account for payment initiation, as stipulated in the directive. The schedules for providing access to information about borrowing and deposits were aligned with those set forth in the Law. The effective start date for information about debit cards and payment initiation was revised to March 31, 2022, and the effective start date for information about credit, savings and deposits was revised to October 31, 2022.

On February 23, 2022, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending the directive to align it with provisions set forth in the Financial Information Service Law. The effective start date of the directive is the same as that of the Law. As from June 30, 2023, Chapter H of Proper Conduct of Banking Business Directive 367 would no longer apply to individual accounts, and would continue to apply for information summary services for corporate customers through December 31, 2024.

On May 15, 2022, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending Directive 368 and stipulating provisions with regard to prohibition of receiving benefits and adding Section 57b to the Directive, in conformity with the Supervisor's authority pursuant to the Financial Information Service Law, as well as amendments to the actual standard. The effective start date of Section 57b of the Directive is on the effective start date of the Financial Information Service Law (as of the date of this publication: June 14, 2022).

On July 24, 2022, the Bank of Israel issued a letter regarding implementation of the Financial Information Services Law and the Open Banking standard. The circular emphasizes that banking corporations are required to act as information sources, and in future - as financial information service providers, and to ensure that work processes include at least a policy on service level, implementation of controls for availability and response times, information integrity and quality, implementation of regulatory directives by an internal committee dedicated to this matter and conducting internal audit processes. The letter seeks to review the qualification processes and to ensure that any malfunctions with regard to service or availability are addressed within a reasonable time frame. The Bank is preparing to respond to and implement the directives in this letter.

On January 22, 2023, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending Directive 368 and stipulating provisions regarding, inter alia, provision of access to information about securities, service level, use of certificates and approval of operations as payment initiator. The effective start date of the amendments in the circular is the issue date of the circular, except for presentation of information about securities, which is June 14, 2023, and except for amendments regarding handling of malfunctions, response times and service level, which is June 30, 2023.

On February 9, 2023, the Bank of Israel issued a circular concerning reporting of open banking activity, amending Reporting Directive 868 "Reporting of open banking activity", so as to allow the Supervisor of Banks to monitor the nature and scope of open banking activity in Israel. The amendments to this directive apply as from January 1, 2023, with relief as provided for in the circular.

The Bank is preparing to implement the circular. Application of the circular is not expected to have any material impact on the Bank's financial statements.

Risk Management

On February 26, 2023, the Bank of Israel issued a circular regarding risk management (Amendment to Proper Conduct of Banking Business Directive 310). This amendment concerns the involvement of banking corporations and counter parties in activities related to cryptographic assets; the approval process for new products now includes mandatory review of compliance of the new product with applicable requirements of statutes and regulations. Definition of the term "Cryptographic asset" has been added, as well as mandatory reporting in writing to the Supervisor of Banks prior to launch of operations related to this asset class. The amendment applies as from the publication date thereof.

The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

On February 26, 2023, the Supervisor of Banks issued a letter regarding "Dealing in financial cryptographic assets", which lists the key risks arising from operations involving crypto and a requirement to apply the amendment to Directive 310 to such operations.

Opening a current account with balance in credit and account management

On March 26, 2023, the Bank of Israel issued a circular regarding Opening a current account with balance in credit (Amendment to Proper Conduct of Banking Business Directive 422). This amendment is intended to clarify the cases where a claim of "reasonable refusal" to open a current account with balance in credit and account management using basic payment services would not be acceptable. The scope of this directive was expanded to include management of current account with balance in debit not exceeding the approved credit facility, and expanded the basic payment services set forth in the Directive. The effective start date of the amendment in this circular is one year after publication thereof.

The Bank is preparing to implement the directive. Application of this directive has no material impact on the Bank's financial statements.

Management of customer service and support department

On March 26, 2023, the Bank of Israel issued a circular concerning management of customer service and support department (Proper Conduct of Banking Business Directive 501). This Directive is part of an extensive plan by the Supervisor of Banks to specify guidelines and standards for banking consumer relations, for fair conduct of banking corporations with their customers. This Directive provides guidelines for providing service and support to banking system customers, through various service channels, and stipulates obligations with regard to corporate governance and work processes of banking corporations, in order to promote an organizational culture that emphasizes quality and availability of customer service and support. In this regard, the banking corporation's Board of Directors and management are required to set strategy, policy, plans and work processes to ensure promotion of the banking corporation's compliance with the specified guidelines.

The effective start date of the directive in this circular is one year after publication thereof, except for some sections that would become effective on dates listed in the circular.

The Bank is preparing to implement the directive. Application of this directive has no material impact on the Bank's financial statements.

Bank's credit rating

On August 28, 2022, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") left the Bank ratings unchanged. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook.

Contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated Aa3.il / Stable outlook.

On July 26, 2022, S&P GLOBAL RATINGS MAALOT LTD (hereinafter: "Maalot") approved the Bank's issuer rating of ilAAA / Stable outlook. According to the rating agency: "Confirmation of Mizrahi Tefahot's rating reflects our view, whereby the bank would continue to benefit from its leadership position in mortgages and from the robust economy".

contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA- by Maalot.

On December 22, 2022, rating agency Fitch Ratings (hereinafter: "Fitch") confirmed the Bank's long-term IDR rating of A with Stable outlook, and the Bank's short-term rating of F1+, and also confirmed the BBB rating of subordinated notes with loss-absorption provisions.

On May 2, 2023, Fitch initially rated the Bank in a new rating category – xgs (ex-government support rating), based on a new methodology globally applied to the banking sector. The Long term IDR(xgs) rating set is A-(xsg), and the Short term IDR(xgs) rating set is F2(xsg). There was no change to the Bank rating in the regular category.

On July 20, 2022, rating agency S&P Global Ratings (hereinafter: "S&P") confirmed the long-term issuer credit rating of A- and the short-term issuer credit rating of A-2. Positive rating outlook. Moreover, the agency confirmed the BBB- rating of contingent subordinated notes with loss-absorption provisions which qualify as Tier II equity, issued by the Bank on April 7, 2021 by international private placement to institutional investors.

On September 30, 2020, Moody's Investors Services rating agency confirmed the Bank's long-term deposit rating at A2 with Stable outlook.

Operating segments

For extensive information about supervisory operating segments, see chapter "Corporate governance, audit, other information about the Bank and its management" of the 2022 financial statements.

Appendix 1 – Revenue rates and interest expenses of the Bank and subsidiaries thereof[1]

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	For the three months ended March 31, 2023			For the three months ended March 31, 2022		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			in %			in %
Interest-bearing assets						
Loans to the public[3]						
In Israel	300,365	[7]4,736	6.31	266,952	[7]2,998	4.49
Outside of Israel	6,747	139	8.24	4,373	52	4.76
Total	**307,112**	**4,875**	**6.35**	**271,325**	**3,050**	**4.50**
Loans to the Government						
In Israel	337	3	3.56	351	2	2.28
Outside of Israel	86	2	9.30	110	2	7.27
Total	**423**	**5**	**4.73**	**461**	**4**	**3.47**
Deposits with banks						
In Israel	2,888	23	3.19	2,059	1	0.19
Outside of Israel	141	–	–	196	–	–
Total	**3,029**	**23**	**3.04**	**2,255**	**1**	**0.18**
Deposits with central banks						
In Israel	68,066	547	3.21	79,431	22	0.11
Outside of Israel	17,393	193	4.44	9,282	4	0.17
Total	**85,459**	**740**	**3.46**	**88,713**	**26**	**0.12**
Securities borrowed or purchased in resale agreements						
In Israel	197	2	4.12	1,115	–	–
Outside of Israel	–	–	–	–	–	–
Total	**197**	**2**	**4.12**	**1,115**	**–**	**–**
Bonds held to maturity and available for sale[4]						
In Israel	12,756	100	3.14	13,822	59	1.71
Outside of Israel	1,128	14	4.96	918	2	0.87
Total	**13,884**	**114**	**3.28**	**14,740**	**61**	**1.66**
Bonds held for trading[5]						
In Israel	4,568	1	0.09	620	2	1.29
Outside of Israel	–	–	–	–	–	–
Total	**4,568**	**1**	**0.09**	**620**	**2**	**1.29**
Total interest-bearing assets	**414,672**	**5,760**	**5.56**	**379,229**	**3,144**	**3.32**
Receivables for credit card operations	4,235			4,054		
Other non-interest bearing assets[6]	8,440			4,243		
Total assets	**427,347**			**387,526**		
Total interest-bearing assets attributed to overseas operations	**25,495**	**348**	**5.46**	**14,879**	**60**	**1.61**

See footnotes below.

Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

A. Average balances and interest rates – liabilities and equity

	For the three months ended March 31, 2023			For the three months ended March 31, 2022		
	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate
			in %			in %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	39,602	213	2.15	48,236	14	0.12
Term deposits	203,989	1,916	3.76	149,313	572	1.53
Outside of Israel						
On-call	437	–	–	489	–	–
Term deposits	7,049	93	5.28	4,007	3	0.30
Total	**251,077**	**2,222**	**3.54**	**202,045**	**589**	**1.17**
Deposits from the Government						
In Israel	76	–	–	60	–	–
Outside of Israel	–	–	–	–	–	–
Total	**76**	**–**	**–**	**60**	**–**	**–**
Deposits from banks						
In Israel	7,389	26	1.41	6,861	1	0.06
Outside of Israel	–	–	–	–	–	–
Total	**7,389**	**26**	**1.41**	**6,861**	**1**	**0.06**
Securities loaned or sold in re-purchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Bonds and subordinated notes						
In Israel	33,724	366	4.34	36,072	410	4.55
Outside of Israel	–	–	–	–	–	–
Total	**33,724**	**366**	**4.34**	**36,072**	**410**	**4.55**
Other liabilities						
In Israel	6,383	–	–	927	–	–
Outside of Israel	–	–	–	–	–	–
Total	**6,383**	**–**	**–**	**927**	**–**	**–**
Total interest-bearing liabilities	**298,649**	**2,614**	**3.50**	**245,965**	**1,000**	**1.63**
Non-interest bearing deposits from the public	84,463			105,195		
Payables for credit card transactions	4,017			4,094		
Other non-interest bearing liabilities[8]	14,018			10,096		
Total liabilities	**401,147**			**365,350**		
Total equity instruments	**26,200**			**22,176**		
Total liabilities and equity instruments	**427,347**			**387,526**		
Interest spread			**2.06**			**1.69**
Net return on interest-bearing assets[9]						
In Israel	389,177	2,891	2.97	364,350	2,087	2.29
Outside of Israel	25,495	255	4.00	14,879	57	1.53
Total	**414,672**	**3,146**	**3.03**	**379,229**	**2,144**	**2.26**
Total interest-bearing liabilities attributed to overseas operations	**7,486**	**93**	**4.97**	**4,496**	**3**	**0.27**

Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

B. Average balances and interest rates – Further information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended March 31, 2023			For the three months ended March 31, 2022		
	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate
			in %			in %
Israeli currency – non-linked						
Total interest-bearing assets	291,279	3,775	5.18	271,881	1,655	2.43
Total interest-bearing liabilities	206,244	(1,456)	(2.82)	160,295	(167)	(0.42)
Interest spread			**2.36**			**2.02**
Israeli currency – linked to the CPI						
Total interest-bearing assets	81,281	1,397	6.87	75,298	1,341	7.12
Total interest-bearing liabilities	46,179	(612)	(5.30)	54,203	(773)	(5.70)
Interest spread			**1.57**			**1.42**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	16,617	240	5.78	17,171	88	2.05
Total interest-bearing liabilities	38,740	(453)	(4.68)	26,971	(57)	(0.85)
Interest spread			**1.10**			**1.20**
Total – operations in Israel						
Total interest-bearing assets	389,177	5,412	5.56	364,350	3,084	3.39
Total interest-bearing liabilities	291,163	(2,521)	(3.46)	241,469	(997)	(1.65)
Interest spread			**2.10**			**1.73**

Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries(1) – Continued

Reported amounts (NIS in millions)

C. Analysis of changes to interest revenues and expenses

	Three months ended March 31, 2023 vs. three months ended March 31, 2022		
	Increase (decrease) due to change(10)		
	Volume	**Price**	**Net change**
Interest-bearing assets			
Loans to the public			
In Israel	527	1,211	1,738
Outside of Israel	49	38	87
Total	**576**	**1,249**	**1,825**
Other interest-bearing assets			
In Israel	(65)	655	590
Outside of Israel	92	109	201
Total	**27**	**764**	**791**
Total interest revenues	**603**	**2,013**	**2,616**
Interest-bearing liabilities			
Deposits from the public			
In Israel	402	1,141	1,543
Outside of Israel	37	53	90
Total	**439**	**1,194**	**1,633**
Other interest-bearing liabilities			
In Israel	30	(49)	(19)
Outside of Israel	–	–	–
Total	**30**	**(49)**	**(19)**
Total interest expenses	**469**	**1,145**	**1,614**

(1) Information in these tables is after effect of hedging derivative instruments.

(2) Based on balance at start of month (in Israeli currency – non-linked segment: based on daily balances).

(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.

(4) From the average balance of bonds available for sale, for the three-month periods ended March 31, 2023 and March 31, 2022, we (added) deducted the average balance of unrealized (loss) gain from adjustment to fair value of bonds available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (632) million and NIS (123) million, respectively.

(5) From the average balance of bonds held for trading, for the three-month periods ended March 31, 2023 and March 31, 2022, we (added) deducted the average balance of unrealized (loss) gain from adjustment to fair value of bonds held for trading, amounting to NIS 9 million and NIS 1 million.

(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.

(7) Commissions amounting to NIS 113 million and NIS 219 million included under interest revenues for the three-month periods ended March 31, 2023 and 2022, respectively.

(8) Includes derivative instruments.

(9) Net return – net interest revenues divided by total interest-bearing assets.

(10) The change attributed to change in volume was calculated by multiplying the new price and the change in volume. The change attributed to change in price was calculated by multiplying the old volume and the change in price.

Glossary and index of terms included on the financial statements

Below is a summary of terms used on the financial statements:

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

B	**Basel – Basel II / Basel III** – A framework for assessment of capital adequacy and risk management, published by the Basel Committee on Bank Supervision.
C	**CVA – Credit Valuation Adjustment** – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss from revaluation to market value due to expected counter-party risk for over-the-counter (OTC) derivatives. This means loss due to impairment of fair value of derivatives, due to increase in counter-party credit risk (such as: lowered rating).
	Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
E	**EVE – Economic Value of Equity** – The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.
G	**Risks document** – A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The risks document is reported and presented to the Board of Directors quarterly.
I	**ICAAP – Internal Capital Adequacy Assessment Process** by the Bank. The process includes, *inter alia*, setting capital targets, capital planning processes and review of the status of capital under diverse stress scenarios. This process is part of Pillar 2 of the Basel II directive.
L	**LGD (Loss Given Default)** – Loss rate from credit should the customer go into default.
	Loan To Value Ratio (LTV) – The ratio between the approved facility when extended and the asset value.
M	**Minimum capital ratio** – The ratio represents the minimum supervisory capital ratios which the Bank is required to maintain, pursuant to requirements set forth in Proper Conduct of Banking Business Directive 201.
P	**PD (Probability of Default)** – Probability (in percent) of a borrower going into default within a specified time.
	Pillar 2 – The second pillar of the Basel II document, referring to the supervisory review process. This part consists of the following underlying principles: The Bank shall conduct an ICAAP process, as defined above. The banking supervision shall conduct a process to assess the bank's capital adequacy assessment process, to review the bank's capacity to monitor and comply with supervisory capital ratios. The bank is expected to operate above the minimum capital ratios specified.
	Pillar 3 – The third pillar of the Basel II document, designed to promote market discipline by developing a set of disclosure requirements that would allow market participants to assess the capital, risk exposure and risk assessment processes, and accordingly – to assess the bank's capital adequacy.
R	**Risk assets** – Composed of credit risk, operating risk and market risk, calculated using the standard approach, as set forth in Proper Conduct of Banking Business Directives 201-211.
S	**Standard approach** – An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is conducted according to a formula based on supervisory assessment components, as specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I equity and additional Tier I capital and Tier II capital. As defined in Proper Conduct of Banking Business Directive 202 "Capital measurement and adequacy – Supervisory capital".
	Subordinated obligatory notes – Obligatory notes whose rights are subordinated to claims by other Bank creditors, except for other obligatory notes of the same type.
	Stress tests – Term covering multiple methods designed to assess the financial standing of a banking corporation under a stress scenario.
V	**VAR –** A model used to estimate total exposure to diverse market risks. The VAR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.

Terms with regard to banking and finance

A	**Active market** – Market where transactions in an asset or liability are conducted with sufficient frequency and volume to provide regular information about pricing of assets and liabilities.
	Average duration – Average duration of bonds. Measured in years, by weighting principal and interest payments for the bond over time, through final maturity. The average duration of bonds reflects sensitivity of the financial instrument to changes in interest rates. Average duration is calculated as the ratio of weighted average payments to price of the bond.
B	**Bonds** – Securities which are issuer obligations to pay to bond holders the issued principal and interest upon set dates or upon fulfillment of certain conditions.
D	**Debt secured by collateral** – Impaired debt expected to be repaid by realizing collateral provided to secure such debt.
	Debt under re-structuring – Problematic debt under re-structuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms of the debt, designed to ease the burden on the debtor of cash payments in the near term (reduction or deferral of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
	Debt under special supervision – Debt under special supervision is debt with potential weaknesses that require special attention from Bank management. If such weaknesses are not addressed, the likelihood of debt repayment may deteriorate.
	Derivative instrument – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
I	**Indebtedness** – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
	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.
M	**Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
N	**Non-accruing debt** – Debt reviewed on individual basis where it is expected that the banking corporation would not be able to collect all amounts due and principal and interest payments in conformity with contractual terms and conditions of the debt agreement. Debt reviewed on individual basis is categorized as non-accruing in any case where principal or interest is in arrears over 90 days straight, unless the debt is well secured and is in collection proceedings. Non-accruing debt also includes debt with modified terms and conditions due to re-structuring of problematic debt.
O	**Off-balance sheet credit** – Contracting for providing credit and guarantees (excluding derivative instruments).
P	**Problematic debt** – Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
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.
S	**Syndication** – Loan extended jointly by a group of lenders.

Terms with regard to regulatory directives

F	**FATCA – Foreign Accounts Tax Compliance Law** – The US Foreign Accounts Tax Compliance Law 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 capacity to meet its liquidity needs for the coming month.

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