CONDENSED CONSOLIDATED FINANCIAL REPORTS

AS OF 30.06.2023

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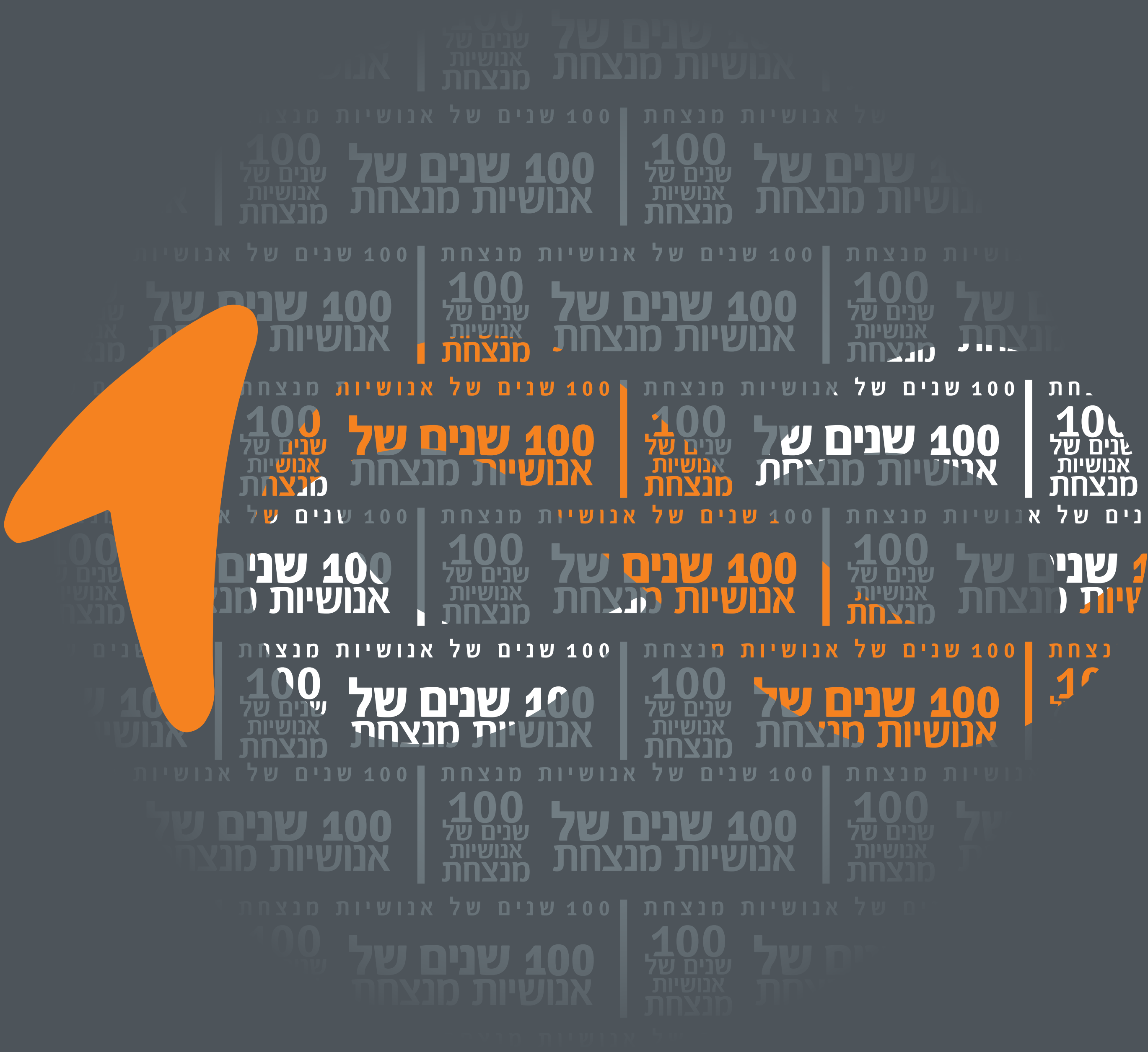
MIZRAHI TEFAHOT



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The Israel Securities Authority's MAGNA website also includes the following reports: The condensed financial statements, as well as in XBRL format, a detailed risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank. In conformity with the Supervisor of Banks' directives, these reports are also available on the Bank website at www.mizrahi-tefahot.co.il/en ▶ financial reports. In accordance with the Equal Rights for Persons with Disabilities (Service Accessibility Adjustments) Regulations, 2013, the website also includes accessible reports.

Bank Mizrahi Tefahot

Condensed quarterly financial statements
As of June 30, 2023

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Bank Mizrahi Tefahot

Report of the Board of Directors and Management

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Introduction

The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on August 14, 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 June 30, 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 half 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			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
	NIS in millions					
Statement of profit and loss – key items						
Interest revenues, net	3,181	3,146	2,952	2,691	2,453	2,144
Non-interest financing revenues	250	87	198	263	176	117
Commissions and other revenues	564	593	569	579	574	952
Total revenues	**3,995**	**3,826**	**3,719**	**3,533**	**3,203**	**3,213**
Expenses with respect to credit losses	247	227	191	155	107	79
Operating and other expenses	1,521	1,437	1,814	1,529	1,442	1,388
Of which: Payroll and associated expenses	1,009	931	1,194	1,002	924	909
Pre-tax profit	2,227	2,162	1,714	1,849	1,654	1,746
Provision for taxes on profit	779	747	580	635	572	569
Net profit(1)	**1,398**	**1,367**	**1,087**	**1,178**	**1,053**	**1,154**

	First half		All of
	2023	2022	2022
	NIS in millions		
Statement of profit and loss – key items			
Interest revenues, net	6,327	4,597	10,240
Non-interest financing revenues	337	293	754
Commissions and other revenues	1,157	1,526	2,674
Total revenues	**7,821**	**6,416**	**13,668**
Expenses (income) with respect to credit losses	474	186	532
Operating and other expenses	2,958	2,830	6,173
Of which: Payroll and associated expenses	1,940	1,833	4,029
Pre-tax profit	4,389	3,400	6,963
Provision for taxes on profit	1,526	1,141	2,356
Net profit(1)	**2,765**	**2,207**	**4,472**

Group net profit in the first half of 2023 amounted to NIS 2,765 million, compared to NIS 2,207 million in the corresponding period last year – an increase by 25.3%. This reflects a 22.2% annualized return on equity, compared to 20.6% 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 half of 2022 is 18.0% and in all of 2022 – 19.0%.

Group net profit in the second quarter of 2023 amounted to NIS 1,398 million, compared to NIS 1,053 million in the corresponding period last year – an increase by 32.8%. This reflects a 22.0% annualized return on equity, compared to 19.4% in the corresponding period last year.

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

- Net interest revenues in the first half of 2023 increased by 36.3% over the corresponding period last year, primarily due to increase by NIS 19 billion, or 6.4%, in loans to the public compared to June 30, 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 under "Analysis of Development in financing revenues" below.

- Other revenues in the first half of 2022 included capital gain amounting to NIS 371 million (recognized in the first quarter of 2022).

- Expenses with respect to credit losses in the first half of 2023 amounted to NIS 474 million primarily due to increase in the group-based provision due to growth of the Bank's loan portfolio and higher risk in the market primarily due to the higher interest rates.

- Total operating and other expenses increased by 4.5%.

Operating expenses in the first half of 2023 were primarily impacted by adjustment of variable remuneration items due to financial results and to the payroll agreement signed with the employee union, and conversely 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. Also included are expenses with respect to non-recurring amortization of several assets due, inter alia, to completion of the Union Bank merger.

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					
	June 30, 2023	**March 31, 2023**	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**	**March 31, 2022**
						NIS in millions
Balance sheet – key items						
Total assets	432,722	434,110	428,292	429,767	416,969	394,045
Loans to the public, net	316,925	312,319	307,472	304,104	298,233	282,917
Cash and deposits with banks	83,746	90,240	93,673	95,596	81,330	84,666
Securities	19,865	19,348	15,144	14,379	22,384	16,967
Buildings and equipment	1,438	1,399	1,503	1,410	1,421	1,400
Deposits from the public	345,191	348,469	344,514	345,339	327,884	312,653
Bonds and subordinated notes	36,546	34,608	33,287	31,352	35,173	36,045
Deposits from banks	6,541	7,284	6,994	7,725	8,515	6,850
Shareholders' equity(1)	25,814	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 June 30, 2023 amounted to NIS 432.7 billion, an increase by NIS 15.8 billion, or 3.8%, compared to June 30, 2022.
- Loans to the public, net as of June 30, 2023 amounted to NIS 316.9 billion, an increase by NIS 18.7 billion, or 6.3%, compared to June 30, 2022.
- Deposits from the public as of June 30, 2023 amounted to NIS 345.2 billion, an increase by NIS 17.3 billion, or 5.3%, compared to June 30, 2022.
- Shareholders' equity as of June 30, 2023 amounted to NIS 25.8 billion, an increase by NIS 3.6 billion, or 16.5%, compared to June 30, 2022. 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			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Key performance benchmarks						
Net profit return on equity[(1)(2)]	22.0	22.4	18.5	20.8	19.4	[(9)]21.9
Net profit return on risk assets[(1)(2)(3)]	2.15	2.15	1.77	1.96	1.82	2.07
Return on average assets[(2)]	1.29	1.27	1.01	1.11	1.04	1.17
Deposits from the public to loans to the public, net	108.9	111.6	112.0	113.6	109.9	110.5
Ratio of Tier I equity to risk components	10.23	10.12	9.94	9.92	10.00	10.01
Leverage ratio[(4)]	5.73	5.53	5.42	5.26	5.23	5.31
Liquidity coverage ratio (Quarterly)[(5)]	128	126	118	119	120	120
Net stable funding ratio[(6)]	115	113	115	116	114	116
Ratio of revenues to average assets[(2)]	3.69	3.55	3.47	3.34	3.16	3.27
Cost-income ratio – operating expenses to total revenues[(7)] (Cost Income Ratio)	38.1	37.6	48.8	43.3	45.0	[(9)]43.2
Basic net earnings per share (in NIS)	5.43	5.32	4.23	4.59	4.11	4.50
Key credit quality benchmarks						
Ratio of balance of provision for credit losses to total loans to the public	1.01	0.98	0.93	0.91	0.88	0.89
Ratio of non-accruing debts or debts in arrears 90 days or longer to loans to the public	0.90	0.88	0.87	0.91	0.94	1.13
Expenses with respect to credit losses to loans to the public, net for the period[(2)]	0.31	0.29	0.25	0.20	0.14	0.11
Net accounting write-offs as percentage of average loans to the public[(2)]	0.12	0.07	0.22	0.05	0.06	0.03
Other information						
Share price (in NIS) at end of quarter	123.3	112.6	113.9	125.5	115.5	125.2
Dividends per share (in Agorot)[(8)]	159	127	137	123	–	106
Ratio of net interest revenues to average assets[(2)]	2.94	2.92	2.75	2.54	2.42	2.18
Ratio of commissions to average assets[(2)]	0.46	0.49	0.47	0.49	0.50	0.53

	First half		All of
	2023	2022	2022
Key performance benchmarks			
Net profit return on equity[(1)(2)]	22.2	[(9)]20.6	[(9)]20.1
Net profit return on risk assets[(1)(2)(3)]	2.15	1.95	1.91
Return on average assets[(2)]	1.28	1.10	1.08
Ratio of revenues to average assets[(2)]	3.62	3.20	3.32
Cost-income ratio – operating expenses to total revenues[(7)] (Cost Income Ratio)	37.8	[(9)]44.1	[(9)]45.2
Basic net earnings per share (in NIS)	10.74	8.65	17.47
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period[(2)]	0.30	0.12	0.17
Net accounting write-offs as percentage of average loans to the public[(2)]	0.10	0.05	0.09
Other information			
Dividends per share (in Agorot)[(8)]	286	106	366
Ratio of net interest revenues to average assets[(2)]	2.93	2.29	2.48
Ratio of commissions to average assets[(2)]	0.48	0.51	0.50

Financial ratios indicate as follows:

- Net profit return on equity in the first half of the year was 22.2%, primarily due to increase in activity volume and to impact of higher interest and inflation.
- The ratio of Tier I capital to risk components increased to 10.23%. The minimum ratio required of the Bank is 9.60%.
- The cost-income ratio for the first half of 2023 was 37.8%.

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%, in the first half of 2022: 18.0% and 46.8% 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, strategic-business risk and regulatory-business risk[(1)]. 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.
- On May 3, 2023, the Bank Board of Directors, after approval by 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.

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 June 30, 2023 amounted to NIS 345.2 billion, compared to NIS 344.5 billion at end of 2022. In the first half of 2023, deposits from the public in the NIS-denominated, non-CPI linked segment decreased by 2.6%; deposits in the CPI-linked segment increased by 19.7%; and deposits denominated in or linked to foreign currency increased by 5.1%. For more information see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

(1) In this quarter, regulatory business risk is presented separately from strategic business risk. For more information see chapter Risks Overview 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.

As of June 30, 2023, total bonds and subordinated notes amounted to NIS 36.5 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 June 30, 2023, amounted to NIS 6.2 billion, compared to NIS 6.0 billion as of December 31, 2022.

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

Issuance and redemption of funding sources

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

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

Significant developments in management of business operations

Benefits to help bank customers

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

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

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.

Signing of special collective agreement with Mizrahi Tefahot Employees' Union

On June 26, 2023, the Bank and Mizrahi Tefahot Employees' Union signed a special collective agreement for 2022-2026.

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

- During the term of the agreement, each employee will receive a monthly wage increase of NIS 1,000,with an additional NIS 200 for branch employees, for the period as from January 1, 2022. These sums will be linked to the Consumer Price Index as from January 1, 2023.
- Certain positions, such as section managers and authorized signatories, will receive a wage raise..
- It was agreed that the base wage will increase by 3% in each of the years 2023 through 2024, and by 2% in the years 2025 through 2026. Social provisions will be updated so that the base wage for the pension provisions will be increased, and the base wage for provisions to the study fund will be identical to the pension provision basis.
- The Bank will pay a bonus to employees hired prior to January 1, 2022 (who are still employed by the Bank) in the sum of two thirteenth month payment; employees hired on or after January 1, 2022 (who are still employed by the Bank) will be paid a bonus in the sum of one thirteenth month payment.

Various understandings were reached to enhance the Bank's managerial flexibility and to promote excellence, especially in consideration of current challenges, including changes in the labor market, innovation in the banking industry and to support achievement of the Bank's strategic targets. These include, inter alia:

- Increase in number of personal contracts at Bank headquarters.
- It will be possible to supplement salaries through personal supplements to headquarters employees, subject to certain conditions.
- Extension of the trial period for a specified number of employees, up to 5 years.
- The Bank will be able to relocate employees at its discretion. at the Bank's discretion.
- The Bank will be able to initiate employment terminations due to a lack of suitability for up to 70 employees classified as low-contributing employees during the period of the Agreement.Considering the up-coming relocation of Bank headquarters employees to the new Bank campus in Lod, the parties agreed that working conditions (including with respect to employee welfare) at the new campus will be determined by the Bank exclusively, after consulting the employee union. The employee union shall have no claims whatsoever with respect to relocation to the new campus.
- Full and complete industrial peace will be maintained throughout the term of the agreement.

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

The Bank's financial statements as of December 31, 2022 and as of June 30, 2023 include the cumulative effect of the agreement through said dates, respectively. According to the Bank's assessment, this agreement is not expected to materially impact the Bank's financial statements in 2023 nor in subsequent years. Payroll expenses at the Bank for all of 2023 should include NIS 85 million in 2023 with respect to the agreement, and should increase by a further NIS 30-45 million in each year between 2024-2026.

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.

Appointment of Bank Yahav CEO

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

Other matters

Monetary sanction

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

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

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

For more information about uncertainty in the Israeli economy due to judicial reform planned by the Government and statements by rating agencies with regard to continuation of this situation, see chapter "Major and emerging risks" and chapter "Risks overview" below.

Real developments

Economic activity in Israel remained stable in the second quarter of 2023, although some indicators were somewhat more moderate.

The Bank of Israel Composite Index increased in the first six months of this year at an annualized rate of 1.1%, compared to an increase by 2.3% in 2022 and increase by 8.8% in 2021.

GDP in Israel in the first quarter of 2023 grew at an annualized 3.2%, further to 6.5% growth in 2022 and 8.6% growth in 2021. According to forecast by the Bank of Israel Research Division dated July 2023, GDP in Israel is expected to grow by 3.0% in 2023.

The unemployment rate (for those aged 15 or higher, net of seasonality) in June 2023 was at 3.6%, compared to 4.2% in December 2022. The number of vacant jobs in the economy is decreasing, but remained high at 124 thousand jobs in June.

Inflation and exchange rates

In the first six months of this year, the Consumer Price Index increased by 2.2%, compared to an increase by 3.2% in the corresponding period last year. In the 12 months ended June 2023, the CPI increased by 4.2%, higher than the Bank of Israel target range. In the second quarter, inflation was slightly lower but still present across the board. Expectations in the capital market for the next 12 months are around the higher limit of the Bank of Israel target range.

In the first half of this year, the NIS was devalued by 5.1% vs. the USD. The NIS devaluation trend increased inflationary pressures in Israel.

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

	June 30, 2023	December 31, 2022	Change in %
Exchange rate of:			
USD (in NIS)	3,700	3,519	5.1
EUR (in NIS)	4,019	3,753	7.1

On August 9, 2023, the USD/NIS exchange rate was 3.716 – devaluation by 0.4% compared to June 30, 2023. On said date, the EUR/NIS exchange rate was 4.080 – devaluation by 1.5% compared to June 30, 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 May 2023, the Bank of Israel interest rate reached 4.75%, compared to 0.10% at the end of 2021. In July 2023, the Bank of Israel decided to leave the interest rate unchanged; the Monetary Committee noted a considerable likelihood of further increase in interest rates in subsequent decisions. The forecast by the Bank of Israel Research Division, dated June 2023, estimates that the average interest rate in the second quarter of 2024 would be 5.0%.

Fiscal policy

In the first half of 2023, the Government budget recorded a NIS 6.7 billion cumulative surplus, compared to NIS 31.9 billion budget surplus in the corresponding period last year. The deficit rate as percentage of GDP for the 12 months ended in June 2023 was 0.9%. In the first six months of 2023, Government expenditure increased by 6.9% compared to the corresponding period last year; Excluding expenses for addressing the Corona Virus crisis, Government expenditure increased by 8.6%. Tax collection decreased by a nominal 5.0% compared to the corresponding period last year.

In April 2023, Moody's maintained Israel's credit rating unchanged at A1, and revised the rating outlook from Positive to Stable. The rating decision noted that making extensive changes to the judicial system without broad agreement point to a deterioration of Israel’s institutional and governance strength.l, and that emergence of a prolonged political and social crisis may have negative impact on the Israeli economy.

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

On May 30, 2023, rating agency Fitch reported that Israel's debt to GDP ratio should decrease further, and that Israel's credit rating may be raised if political and social stability is maintained.

In July 2023, after the Knesset passed a law curbing the use of the reasonability cause, rating agencies Moody's and S&P issued statements with regard to the risk of impact to the Israeli economy. For more information see above in this chapter.

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 five months of 2023 was 12.3 thousand apartments, a decrease by 39.2% over the corresponding period last year and by 44.4% over the corresponding period in 2021. In the first half of 2023, residential mortgages extended to the public amounted to NIS 36.8 billion, compared to NIS 69.2 billion in the corresponding period last year and NIS 52.1 billion in the corresponding period in 2021 – a decrease by 47% and 29%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices in the 12 months ended May 2023 increased by 7.6%, following an increase by 16.9% in 2022 and an increase by 11.5% in 2021.

Capital market

Trading on Israeli equity markets in major indexes in the second quarter of 2023 was positive, similar 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	**Second quarter**	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Tel-Aviv 35	0.6	(3.2)	(2.2)	0.5	(9.5)	2.2
Tel-Aviv 125	2.9	(4.8)	(3.8)	–	(10.2)	2.0
Tel-Aviv 90	9.3	(9.0)	(7.9)	(1.7)	(11.6)	2.3

The average daily trading volume of shares and convertible securities in the second quarter of 2023 amounted to NIS 2.0 billion on average – compared to NIS 2.4 billion in the corresponding period last year. In the first half of 2023, the average volume was NIS 2.1 billion, compared to NIS 2.5 billion in the first half of 2022.

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

	2023		2022			
CPI	**Second quarter**	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
All-Bond general	1.9	–	(0.6)	(2.2)	(2.3)	(3.4)
Government bonds, CPI-linked	1.0	0.7	(0.8)	(2.5)	(3.0)	(3.9)
Government bonds, non-linked	0.8	(0.4)	(0.2)	(2.3)	(2.1)	(4.5)
Tel-bond 20	2.5	0.3	(1.1)	(2.5)	(3.8)	(3.0)
Tel-bond 40	2.4	0.5	(1.0)	(1.9)	(2.8)	(2.5)

Global economy

According to the IMF forecast dated July 2023, global GDP growth in 2023 should be 3.0% – higher by 0.2 percentage point from the previous forecast, and compared to 3.5% growth in 2022. Although the 2023 forecast was slightly increased, it remains low by historical perspective. This was due to restrictive monetary policy by central banks and moderate decrease in the core inflation rate.

The US economy grew in the first half of 2023 at an annualized 2.2%, following growth by 2.1% in 2022 and growth by 5.9% in 2021. In 2022, the inflation rate rose to a record of 9.1% for the 12 months ended in June 2022, and since then has decreased, to 3.0% in June 2023. The high inflation rate caused the FED to gradually increase the monetary interest rate, from 0.1% in early 2022 to 5.5% at end of July 2023. The Purchasing Manager index in the services sector indicated expansion in the second quarter of this year, while the Purchasing Manager indexes in the industrial sector indicated contraction. Unemployment in June 2023 was at 3.6%, similar to its level prior to the crisis.

On August 1, 2023, rating agency Fitch reduced the long-term credit rating of the USA, from AAA to AA+ with Stable outlook.

GDP in the Euro Zone in the first half of 2023 increased at an annualized 0.2%, compared to 3.5% growth for all of 2022 and 5.3% growth for all of 2021. The inflation rate was more moderate at 5.5% for the 12 months ended June 2023, after reaching 10.6% in October 2022. In view of the high inflation rate, the ECB has gradually raised its monetary interest rate, with interest on deposits reaching 3.75% at end of July 2023. The Purchasing Manager Index in economic sectors indicates rapid contraction in the second quarter, whereas the Purchasing Manager Index in service sectors indicated expansion.

China's economy grew in the first half of 2023 at an annualized 5.8%, following growth by 3.0% in 2022 and growth by 8.1% in 2021. This increase in China's growth rate is due to removal of travel restrictions early this year.

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

	2023		2022			
CPI	**Second quarter**	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Dow Jones	3.4	0.4	15.4	(6.7)	(11.3)	(4.6)
S&P 500	8.3	7.0	7.1	(5.3)	(16.5)	(5.0)
NASDAQ 100	15.2	20.5	(0.3)	(4.6)	(22.5)	(9.1)
DAX	3.3	12.3	14.9	(5.2)	(11.3)	(9.3)
FSTE 100	(1.3)	2.4	8.1	(3.8)	(4.6)	1.8
CAC	1.1	13.1	12.4	(2.7)	(11.1)	(6.9)
Nikkei	18.4	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.

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

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 half 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

For more information about dividend distribution with respect to earnings of the second 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 half of 2023 amounted to NIS 2,765 million, compared to NIS 2,207 million in the corresponding period last year – an increase by 25.3%. This reflects a 22.2% annualized return on equity, compared to 20.6% 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 half of 2022 is 18.0% and in all of 2022 – 19.0%.

Group net profit in the second quarter of 2023 amounted to NIS 1,398 million, compared to NIS 1,053 million in the corresponding period last year – an increase by 32.8%. This reflects a 22.0% annualized return on equity, compared to 19.4% in the corresponding period last year.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues(1) in the first half of 2023 amounted to NIS 6,664 million, compared to NIS 4,890 million in the corresponding period last year, an increase by 36.3%.

Net interest revenues and non-interest financing revenues(1) in the second quarter of 2023 amounted to NIS 3,431 million, compared to NIS 2,629 million in the corresponding period last year, an increase by 30.5%.

Net interest revenues and non-interest financing revenues(1) from current operations in the first half of 2023, excluding the effect of Union Bank, amounted to NIS 5,904 million, as described below, compared to NIS 3,930 million in the corresponding period last year, an increase by 50.2%.

Net interest revenues and non-interest financing revenues(1) from current operations in the second quarter of 2023, amounted to NIS 2,962 million, as described below, compared to NIS 2,096 million in the corresponding period last year, an increase by 41.3%.

The increase in operating revenues in the first half of 2023 was achieved in view of increase in activity due, inter alia, to increase by 6.4% 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 %**
	Second quarter	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**	**Second quarter of 2023 to second quarter of 2022**
Interest revenues, net	3,181	3,146	2,952	2,691	2,453	2,144	
Non-interest financing revenues(1)	250	87	198	263	176	117	
Total financing revenues	**3,431**	**3,233**	**3,150**	**2,954**	**2,629**	**2,261**	**30.5**
Net of:							
Effect of the Consumer Price Index	387	308	270	267	379	228	
Revenues from interest collected with respect to problematic debts	11	9	12	22	20	13	
Gains (losses) from bonds, shares and real investments	18	(44)	(12)	25	(48)	32	
Effect of accounting treatment of derivatives at fair value and others(2)	53	18	(19)	14	182	154	
Total effects other than from current operations	**469**	**291**	**251**	**328**	**533**	**427**	
Total financing revenues from current operations	**2,962**	**2,942**	**2,899**	**2,626**	**2,096**	**1,834**	**41.3**

	First half		
	2023	**2022**	**Change rate (In %)**
Total financing revenues	6,664	4,890	36.3
Total effects other than from current operations	760	960	
Total financing revenues from current operations	**5,904**	**3,930**	**50.2**

(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):

	Second quarter			
Operating segment	**2023**	**2022**	**Change amount**	**Change rate (In %)**
Private individuals:				
Households – residential mortgages	683	609	74	12.2
Households – other	991	434	557	–
Private banking	87	30	57	–
Total individuals	**1,761**	**1,073**	**688**	**64.1**
Business operations:				
Small and micro businesses	674	410	264	64.4
Medium businesses	154	109	45	41.3
Large businesses	296	186	110	59.1
Institutional investors	48	50	(2)	(4.0)
Total business activity	**1,172**	**755**	**417**	**55.2**
Financial management	395	717	(322)	(44.9)
Total activity in Israel	**3,328**	**2,545**	**783**	**30.8**
Overseas activity	103	84	19	22.6
Total	**3,431**	**2,629**	**802**	**30.5**

	First half			
Operating segment	**2023**	**2022**	**Change amount**	**Change rate (In %)**
Private individuals:				
Households – residential mortgages	1,351	1,212	139	11.5
Households – other	1,866	796	1,070	–
Private banking	170	53	117	–
Total individuals	**3,387**	**2,061**	**1,326**	**64.3**
Business operations:				
Small and micro businesses	1,311	767	544	70.9
Medium businesses	333	202	131	64.9
Large businesses	581	342	239	69.9
Institutional investors	106	84	22	26.2
Total business activity	**2,331**	**1,395**	**936**	**67.1**
Financial management	749	1,295	(546)	(42.2)
Total activity in Israel	**6,467**	**4,751**	**1,716**	**36.1**
Overseas activity	197	139	58	41.7
Total	**6,664**	**4,890**	**1,774**	**36.3**

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):

	Second quarter			First half		
Linkage segment	**2023**	**2022**	**Change in %**	**2023**	**2022**	**Change in %**
Israeli currency – non-linked	292,754	283,764	3.2	292,407	276,337	5.8
Israeli currency – linked to the CPI	84,290	72,260	16.6	82,786	74,982	10.4
Foreign currency (including Israeli currency linked to foreign currency)	16,521	17,210	(4.0)	16,728	17,978	(7.0)
Total	**393,565**	**373,234**	**5.4**	**391,921**	**369,297**	**6.1**

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):

	Second quarter		First half	
Linkage segments	**2023**	**2022**	**2023**	**2022**
Israeli currency – non-linked	2.16	2.07	2.22	2.05
Israeli currency – linked to the CPI	1.66	1.21	1.62	1.35
Foreign currency	1.15	1.70	1.13	1.29
Total	**1.97**	**1.72**	**2.00**	**1.71**

(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 is primarily due to the higher interest rates, resulting in higher margin on deposits 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 474 million in the first half of 2023, an annualized rate of 0.30% of total loans to the public, net, compared to expenses amounting to NIS 186 million in the corresponding period last year – an annualized rate of 0.12% of total loans to the public, net in the corresponding period last year.

Expenses with respect to credit losses for the Group amounted to NIS 247 million in the second quarter of 2023, or an annualized rate of 0.31% of total loans to the public, net, compared to expenses amounting to NIS 107 million in the corresponding period last year – an annualized rate of 0.14% of total loans to the public, net 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.

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

	Second quarter			First half
	2023	**2022**	**2023**	**2022**
Expenses with respect to credit losses on individual basis (including accounting write-offs)				
Increased expenses	156	107	308	188
Decreased expenses	(86)	(50)	(153)	(105)
Total individual expense for credit losses	**70**	**57**	**155**	**83**
Expenses for credit losses on group basis				
with respect to residential mortgages	21	38	63	52
Other	156	12	256	51
Total group expense for credit losses	**177**	**50**	**319**	**103**
Total expenses with respect to credit losses	**247**	**107**	**474**	**186**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized):	**0.31%**	**0.14%**	**0.30%**	**0.12%**
Of which: With respect to commercial loans other than residential mortgages	**0.78%**	**0.25%**	**0.71%**	**0.25%**
Of which: with respect to residential mortgages	**0.04%**	**0.08%**	**0.06%**	**0.05%**
Rate of the expenses with respect to individual provision for credit losses, as percentage of total loans to the public, net (annualized):	**0.09%**	**0.08%**	**0.10%**	**0.06%**

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

	Second quarter		First half		Rate of expenses with respect to credit losses(1) in the second quarter		Rate of expenses with respect to credit losses(1) in the first half	
Operating segment	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Private individuals:								
Households – residential mortgages	21	38	63	52	0.04	0.08	0.06	0.05
Households – other	57	17	142	32	0.83	0.26	1.03	0.24
Private banking	1	1	1	–	3.03	2.65	1.52	–
Total individuals	**79**	**56**	**206**	**84**	**0.14**	**0.10**	**0.18**	**0.08**
Business operations:								
Small and micro businesses	(2)127	12	(2)207	25	1.48	0.14	1.21	0.15
Medium businesses	18	24	6	25	0.58	0.86	0.10	0.45
Large businesses	10	6	30	36	0.13	0.09	0.19	0.26
Institutional investors	–	(5)	–	(1)	–	(0.60)	–	(0.06)
Total business activity	**155**	**37**	**243**	**85**	**0.77**	**0.19**	**0.60**	**0.22**
Financial management	–	–	–	–	–	–	–	–
Total activity in Israel	**234**	**93**	**449**	**169**	**0.30**	**0.13**	**0.29**	**0.12**
Overseas activity	13	14	25	17	0.69	0.95	0.67	0.58
Total	**247**	**107**	**474**	**186**	**0.31**	**0.14**	**0.30**	**0.12**

(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 1,494 million in the first half of 2023, compared with NIS 1,819 million in the corresponding period last year – a decrease by NIS 325 million, primarily due to capital gain of NIS 371 million recorded in the first quarter of 2022.

Non-interest revenues amounted to NIS 814 million in the second quarter of 2023, compared with NIS 750 million in the corresponding period last year – an increase by NIS 64 million.

Non-interest financing revenues in the first half of 2023 amounted to NIS 337 million, compared to NIS 293 million in the corresponding period last year.

Non-interest financing revenues in the second quarter of 2023 amounted to NIS 250 million, compared to NIS 176 million in the corresponding period last year.

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

Commission revenues amounted to NIS 1,029 million in the first half of 2023, compared with NIS 1,028 million in the corresponding period last year.

Commission revenues in the second quarter of 2023 amounted to NIS 501 million, compared to NIS 508 million in the corresponding period last year – a decrease by 1.4%.

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

	Second quarter		First half		All of
	2023	**2022**	**2023**	**2022**	**2022**
Account management	114	113	227	221	440
Activities involving securities	58	67	123	141	336
Conversion differences	86	83	183	168	258
Commissions from financing transactions	65	71	147	147	311
Credit cards	66	59	130	124	260
Credit processing(1)	36	39	73	79	157
Other commissions	76	76	146	148	290
Total commissions	**501**	**508**	**1,029**	**1,028**	**2,052**

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

Other revenues in the first half of 2023, amounted to NIS 128 million compared with NIS 498 million in the corresponding period last year.

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

Other revenues in the second quarter of 2023 amounted to NIS 63 million, compared to NIS 66 million in the corresponding period last year.

Other revenues 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 half of 2023 amounted to NIS 2,958 million, compared to NIS 2,830 million in the corresponding period last year, an increase by 4.5%.

Operating and other expenses in the second quarter of 2023 amounted to NIS 1,521 million, compared to NIS 1,442 million in the corresponding period last year, an increase by 5.5%.

For details by operating expense component, see below.

Payroll and associated expenses in the first half of 2023 amounted to NIS 1,940 million, compared to NIS 1,833 million in the corresponding period last year, an increase by 5.8%.

Payroll and associated expenses in the second quarter of 2023 amounted to NIS 1,009 million, compared to NIS 924 million in the corresponding period last year – an increase by 9.2%.

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

Maintenance and depreciation expenses for buildings and equipment in the first half of 2023, amounted to NIS 578 million compared with NIS 491 million in the corresponding period last year – an increase by NIS 87 million.

The increase in Maintenance and depreciation expenses for buildings and equipment is due, to non-recurring write-down of assets due, inter alia, to completion of the Union Bank merger.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 272 million in the second quarter of 2023, compared with NIS 254 million in the corresponding period last year, an increase by NIS 18 million.

Other expenses amounted to NIS 440 million in the first half of 2023, compared with NIS 506 million in the corresponding period last year – a year-over-year decrease by 13.0%.

Other expenses in the second quarter of 2023 amounted to NIS 240 million, compared to NIS 264 million in the corresponding period last year – a decrease by 9.1%.

The decrease in other expenses is 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			
	Second quarter	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Cost Income Ratio	38.1	37.6	48.8	43.3	45.0	(2)43.2

	First half		All of
	2023	**2022**	**2022**
Cost Income Ratio	37.8	(2)44.1	(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% in the first half of 2022 it was 46.8% and 48.8% in the first quarter of 2022.

Pre-tax profit for the Group amounted to NIS 4,389 million in the first half of 2023, compared with NIS 3,400 million in the corresponding period last year – an increase by 29.1%. For a detailed explanation, see above.

Group profit before taxes in the second quarter of 2023 amounted to NIS 2,227 million, compared to NIS 1,654 million in the corresponding period last year, an increase by 34.6%. For a detailed explanation, see above.

The provision rate for taxes on profit in the first half of 2023 was 34.8% – compared to 33.6% in the corresponding period last year.

The provision rate for taxes on profit in the second quarter of 2023 was 35.0% – compared to 34.6% in the corresponding period last year.

Bank share of after-tax profit of associates – in the first half of 2023 the Bank recognized gain with respect to associates amounting to NIS 1 million, compared to NIS 2 million in the corresponding period last year.

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

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first half of 2023 amounted to NIS 99 million, compared to NIS 54 million in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the second quarter of 2023 amounted to NIS 50 million, compared to NIS 30 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 half of 2023 amounted to NIS 2,765 million, compared to NIS 2,207 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the second quarter of 2023 amounted to NIS 1,398 million, compared to NIS 1,053 million in the corresponding period last year.

Other comprehensive income – In the first half of 2023, Bank shareholder equity also includes a decrease by NIS 9 million from adjustments with respect to employee benefits and from adjustments with respect to presentation of bonds available for sale at fair value, after tax effect ("Other comprehensive income attributable to shareholders of the Bank"), compared to decrease by NIS 191 million in the corresponding period last year.

Bank shareholders' equity in the second quarter of 2023 includes a decrease by NIS 32 million, as noted above, compared to a decrease by NIS 93 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			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net profit return on equity	22.0	22.4	18.5	20.8	19.4	(5)21.9
Ratio of Tier I equity to risk components at end of quarter	10.23	10.12	9.94	9.92	10.00	10.01
Liquidity coverage ratio (Quarterly)	128	126	118	119	120	120
Leverage ratio at end of quarter	5.73	5.53	5.42	5.26	5.23	5.31

	First half		All of
	2023	2022	2022
Net profit return on equity	22.2	(5)20.6	(5)20.1

(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 was 19.0%, in the first half of 2022: 18.0% and in the first quarter of 2022: 16.6%.

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

	Second quarter		First half		All of
	2023	2022	2023	2022	2022
Basic earnings per share	5.43	4.11	10.74	8.65	17.47
Diluted earnings per share	5.41	4.09	10.71	8.61	17.38
Dividends per share	159	–	286	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	
		June 30	December 31	June 30	December 31
	2023	2022	2022	2022	2022
Total assets	432,722	416,969	428,292	3.8	1.0
Cash and deposits with banks	83,746	81,330	93,673	3.0	(10.6)
Loans to the public, net	316,925	298,233	307,472	6.3	3.1
Securities	19,865	22,384	15,144	(11.3)	31.2
Buildings and equipment	1,438	1,421	1,503	1.2	(4.3)
Deposits from the public	345,191	327,884	344,514	5.3	0.2
Deposits from banks	6,541	8,515	6,994	(23.2)	(6.5)
Bonds and subordinated notes	36,546	35,173	33,287	3.9	9.8
Shareholder's equity	25,814	22,166	23,780	16.5	8.6

Cash and deposits with banks – the balance of cash and deposits with banks decreased in the first half of 2023 by NIS 9.9 billion, as part of on-going management of Bank liquidity.

Loans to the public, net – loans to the public, net as of June 30, 2023 accounted for 73% of total assets, compared to 72% at the end of 2022. Loans to the public, net for the Group increased in the first half of 2023 by NIS 9.5 billion, an increase by 3.1%.

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	
		June 30	December 31	June 30	December 31
	2023	2022	2022	2022	2022
Israeli currency					
Non-linked	220,948	210,905	215,424	4.8	2.6
CPI-linked	79,475	72,921	76,228	9.0	4.3
Foreign currency, including linked to foreign currency	16,502	14,407	15,820	14.5	4.3
Total	**316,925**	**298,233**	**307,472**	**6.3**	**3.1**

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

				Change in % compared to	
		June 30	December 31	June 30	December 31
	2023	2022	2022	2022	2022
Private individuals:					
Households – residential mortgages	200,914	189,366	195,820	6.1	2.6
Households – other	27,497	26,477	27,064	3.9	1.6
Private banking	132	151	153	(12.6)	(13.7)
Total individuals	**228,543**	**215,994**	**223,037**	**5.8**	**2.5**
Business operations:					
Small and micro businesses	34,302	33,627	34,152	2.0	0.4
Medium businesses	12,390	11,219	12,704	10.4	(2.5)
Large businesses	31,594	28,195	28,519	12.1	10.8
Institutional investors	2,593	3,317	2,556	(21.8)	1.4
Total business activity	**80,879**	**76,358**	**77,931**	**5.9**	**3.8**
Overseas activity	7,503	5,881	6,504	27.6	15.4
Total	**316,925**	**298,233**	**307,472**	**6.3**	**3.1**

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 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 (NIS in millions)								Credit risk[1]
	As of June 30, 2023				As of June 30, 2022			
	Commercial	Residential	Individual	Total	Commercial	Residential	Individual	Total
Credit risk at performing credit rating[2]								
On-balance sheet credit risk	88,738	197,862	26,483	313,083	86,699	186,933	25,323	298,955
Off-balance sheet credit risk[3]	57,454	11,875	14,744	84,073	52,377	18,854	14,207	85,438
Total credit risk at performing credit rating	**146,192**	**209,737**	**41,227**	**397,156**	**139,076**	**205,787**	**39,530**	**384,393**
Credit risk other than at performing credit rating								
A. Non-problematic	3,016	2,393	322	5,731	1,994	2,015	282	4,291
B. Problematic accruing	1,643	–	178	1,821	685	–	142	827
C. Problematic non-accruing	997	1,735	67	2,799	1,278	1,375	73	2,726
Total on-balance sheet credit risk other than at performing credit rating	**5,656**	**4,128**	**567**	**10,351**	**3,957**	**3,390**	**497**	**7,844**
Off-balance sheet credit risk[3] other than at performing credit rating	1,446	–	37	1,483	1,014	–	32	1,046
Total credit risk other than at performing credit rating	**7,102**	**4,128**	**604**	**11,834**	**4,971**	**3,390**	**529**	**8,890**
Of which: Accruing debts, in arrears 90 days or longer	71	–	54	125	108	–	35	143
Total credit risk, including risk to the public[4]	**153,294**	**213,865**	**41,831**	**408,990**	**144,047**	**209,177**	**40,059**	**393,283**
Non-performing assets[5]	**997**	**1,735**	**67**	**2,799**	**1,278**	**1,375**	**73**	**2,726**

				Credit risk[1]
	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 June 30, 2023 amounted to NIS 409 billion, compared to NIS 393 billion as of December 31, 2022 – an increase by 4.1%.

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 June 30, 2023				As of June 30, 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	1.06	0.86	0.25	0.87	1.46	0.72	0.28	0.89
Non-accruing credit in arrears 90 days or longer as percentage of total loans to the public	1.14	0.86	0.45	0.90	1.59	0.72	0.42	0.94
Problematic credit as percentage of total loans to the public	2.87	0.86	0.91	1.43	2.27	0.72	0.83	1.17
Credit not at performing credit rating as percentage of total loans to the public	7.79	2.04	2.23	3.70	5.87	1.78	2.05	2.95
Analysis of expenses with respect to credit losses for the first half								
Expenses with respect to credit losses as percentage of average balance of loans to the public	0.30	0.03	0.54	0.15	0.13	0.03	0.13	0.06
Net accounting write-offs as percentage of average balance of loans to the public	0.10	–	0.24	0.05	0.05	–	0.11	0.02
Analysis of provision for credit losses with respect to loans to the public								
Provision for credit losses as percentage of total loans to the public	2.05	0.48	2.18	1.07	1.87	0.43	1.72	0.95
Provision for credit losses as percentage of total loans to the public non-accruing	193.2	55.6	880.6	123.7	128.3	60.0	606.8	106.3
Provision for credit losses as percentage of total loans to the public non-accruing or in arrears 90 days or longer	180.0	55.6	487.6	118.3	118.0	60.0	410.2	101.0
Expense rate with respect to credit losses from net accounting write-offs	3.12	–	2.20	3.14	2.68	–	1.14	2.82

	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	141.7	67.9	930.9	120.5
Provision for credit losses as percentage of total loans to the public non-accruing or in arrears 90 days or longer	133.9	67.9	517.2	115.4
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	
		June 30	December 31	June 30	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	22,849	20,897	21,772	9.3	4.9
Guarantees to home buyers	16,243	19,585	19,069	(17.1)	(14.8)
Irrevocable commitments for loans approved but not yet granted	25,267	30,373	21,029	(16.8)	20.2
Unutilized revolving credit card facilities	11,893	11,259	11,730	5.6	1.4
Commitments to issue guarantees	9,455	9,010	8,122	4.9	16.4
Guarantees and other commitments	12,777	12,164	12,881	5.0	(0.8)
Loan guarantees	3,796	3,202	3,531	18.6	7.5
Documentary credit	718	367	315	95.6	127.9
Derivative financial instruments[(2)]:					
Total par value of derivative financial instruments	364,940	311,865	299,335	17.0	21.9
(On-balance sheet) assets with respect to derivative instruments	5,831	7,080	5,789	(17.6)	0.7
(On-balance sheet) liabilities with respect to derivative instruments	4,833	6,264	5,214	(22.8)	(7.3)

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 11 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 half of 2023 by NIS 4.7 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)]
						June 30, 2023
Bonds held to maturity	3,253	3,253	–	–	(158)	3,095
Bonds available for sale	9,395	10,015	–	[(2)]48	[(2)](668)	9,395
Investment in shares not held for trading	605	546	–	[(3)]77	[(3)](18)	605
Securities held for trading	6,612	6,651	–	[(3)]6	[(3)](45)	6,612
Total securities	**19,865**	**20,465**	**–**	**131**	**(889)**	**19,707**
						June 30, 2022
Bonds held to maturity	3,409	3,409	–	10	(72)	3,347
Bonds available for sale	16,035	16,581	–	[(2)]53	[(2)](599)	16,035
Investment in shares not held for trading	690	595	–	[(3)]101	[(3)](6)	690
Securities held for trading	2,250	2,267	–	[(3)]9	[(3)](26)	2,250
Total securities	**22,384**	**22,852**		**173**	**(703)**	**22,322**
						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	
		June 30	December 31	June 30	December 31
	2023	2022	2022	2022	2022
Israeli currency					
Non-linked	9,606	8,120	6,645	18.3	44.6
CPI-linked	4,231	2,202	2,498	92.1	69.4
Foreign currency (including linked to foreign currency)	5,407	11,350	5,349	(52.4)	1.1
Non-monetary items	621	712	652	(12.8)	(4.8)
Total	**19,865**	**22,384**	**15,144**	**(11.3)**	**31.2**

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

	Carrying amount as of		
	June 30, 2023	June 30, 2022	December 31, 2022
Government bonds:			
Government of Israel	15,297	11,774	10,732
US Government	1,571	7,574	1,457
Total Government bonds	**16,868**	**19,348**	**12,189**
Bonds of financial institutions in Israel:			
Total bonds of financial institutions in Israel	**811**	**869**	**774**
Bonds of banks in developed nations:			
South Korea	74	72	119
USA	102	100	71
Other	64	80	72
Total bonds of banks in developed nations	**240**	**252**	**262**
Corporate bonds (by economic sector):			
Rental property	514	466	500
Power, gas, steam and air conditioning	182	190	165
Mining and excavation	99	92	95
Industrial – chemical industry	61	57	57
Construction	111	98	97
Other	302	246	298
Total corporate bonds	**1,269**	**1,149**	**1,212**
Asset-backed corporate bonds (ABS)			
Mining and excavation	56	52	53
Others	–	2	2
Total asset-backed corporate bonds (ABS)	**56**	**54**	**55**
Shares and other securities			
Investment in shares not held for trading	605	690	632
Of which: Shares for which no fair value is available(1)	352	426	389
Shares and other securities held for trading	16	22	20
Total shares and other securities	**621**	**712**	**652**
Total securities	**19,865**	**22,384**	**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 increased in the first half of 2023 by NIS 65 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 June 30, 2023, similar to their weight as of December 31, 2022. In the first half of 2023, deposits from the public increased by NIS 0.7 billion, or 0.2%.

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

				Change in % compared to	
		June 30	December 31	June 30	December 31
	2023	2022	2022	2022	2022
Israeli currency					
Non-linked	253,662	244,484	260,411	3.8	(2.6)
CPI-linked	26,047	23,300	21,767	11.8	19.7
Foreign currency, including linked to foreign currency	65,482	60,100	62,336	9.0	5.0
Total	**345,191**	**327,884**	**344,514**	**5.3**	**0.2**

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

				Change in % compared to	
		June 30	December 31	June 30	December 31
	2023	2022	2022	2022	2022
Private individuals:					
Households – other	129,413	123,387	125,823	4.9	2.9
Private banking	27,355	24,029	25,755	13.8	6.2
Total individuals	**156,768**	**147,416**	**151,578**	**6.3**	**3.4**
Business operations:					
Small and micro businesses	56,223	55,875	55,805	0.6	0.7
Medium businesses	11,980	13,908	13,570	(13.9)	(11.7)
Large businesses	34,738	38,132	39,636	(8.9)	(12.4)
Institutional investors	75,829	66,998	75,938	13.2	(0.1)
Total business activity	**178,770**	**174,913**	**184,949**	**2.2**	**(3.3)**
Overseas activity	9,653	5,555	7,987	73.8	20.9
Total	**345,191**	**327,884**	**344,514**	**5.3**	**0.2**

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):

		June 30	December 31
	2023	2022	2022
Maximum deposit			
Up to 1	102,018	98,247	99,561
Over 1 to 10	89,184	83,530	86,771
Over 10 to 100	43,413	45,158	46,517
Over 100 to 500	34,077	36,060	35,348
Above 500	76,499	64,889	76,317
Total	**345,191**	**327,884**	**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 June 30, 2023 amounted to NIS 6.6 billion, a decrease by NIS 453 million compared to end of 2022.

Bonds and subordinated notes – The balance of bonds and subordinated notes as of June 30, 2023 amounted to NIS 36.5 billion, an increase by NIS 3.3 billion compared to the balance as of December 31, 2022. In the first half of 2023, bonds and subordinated notes were affected by issuance of a new commercial paper series (67) amounting to NIS 2.0 billion, by issuance of commercial paper 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 June 30, 2023 amounted to NIS 25.8 billion, compared to NIS 23.8 billion and NIS 22.2 billion as of December 31, 2022 and as of June 30, 2022, an increase by 8.6% and 16.5%, respectively.

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

		June 30	December 31
	2023	**2022**	**2022**
Share capital and premium[(1)]	3,526	3,500	3,519
Capital reserve from benefit from share-based payment transactions	106	80	99
Cumulative other comprehensive loss[(2)(3)]	(523)	(494)	(514)
Retained earnings [(4)]	22,705	19,080	20,676
Total	**25,814**	**22,166**	**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 shareholders' equity to total assets for the Group as of June 30, 2023 was 5.97% compared to 5.55% as of December 31, 2022 and 5.32% as of June 30, 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 June 30, 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).

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. 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 June 30	As of December 31
	2023	**2022**	**2022**
Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	26,908	23,567	25,072
Tier I capital	26,908	23,567	25,072
Tier II capital	8,482	7,988	8,015
Total capital	**35,390**	**31,555**	**33,087**
Weighted risk asset balances			
Credit risk	242,280	219,449	234,383
Market risks	1,710	1,843	1,301
Operational Risk	18,919	14,491	16,567
Total weighted risk asset balances	**262,909**	**235,783**	**252,251**

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

	June 30, 2023	**June 30, 2022**	**December 31, 2022**
Ratio of Tier I equity to risk components	10.23	10.00	9.94
Ratio of total capital to risk components	13.46	13.38	13.12
Minimum Tier I equity ratio required by Supervisor of Banks	9.60	9.62	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 June 30, 2023		**As of June 30, 2022**		**As of December 31, 2022**	
Exposure group	**Weighted risk asset balances**	**Capital[(1)] requirement**	**Weighted risk asset balances**	**Capital[(1)] requirement**	**Weighted risk asset balances**	**Capital[(1)] requirement**
Debts of sovereigns	232	29	37	5	29	4
Debts of public sector entities	394	49	487	61	371	46
Debts of banking corporations	1,857	232	1,818227		1,748	219
Securities companies	1,001	125	825	103	928	116
Debts of corporations	81,928	10,241	72,228	9,029	78,486	9,811
Debts secured by commercial property	5,531	691	5,657	707	5,226	653
Retail exposures to individuals	21,273	2,659	20,265	2,533	20,935	2,617
Loans to small businesses	10,218	1,277	10,105	1,263	10,209	1,276
Residential mortgages	108,785	13,598	97,867	12,233	106,008	13,251
Other assets	9,670	1,209	9,089	1,136	9,213	1,152
Total	**240,889**	**30,110**	**218,378**	**27,297**	**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 June 30, 2023		As of June 30, 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	1,710	214	1,843	230	1,301	163
CVA risk with respect to derivatives (2)	1,391	174	1,071	134	1,230	154
Operational Risk(3)	18,919	2,365	14,491	1,811	16,567	2,071
Total	**22,020**	**2,753**	**17,405**	**2,175**	**19,098**	**2,388**
Total risk assets	**262,909**	**32,863**	**235,783**	**29,472**	**252,251**	**31,533**

(1) Capital requirement calculated at 12.5% of risk asset balances.
(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 June 30, 2023 is 5.73%, 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 June 30		As of December 31
	2023	**2022**	**2022**
Consolidated data			
Tier I capital	26,908	23,567	25,072
Total exposure	469,461	450,369	463,010
			In %
Leverage ratio	5.73	5.23	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	6.35	5.58	6.08
Minimum leverage ratio required by the Supervisor of Banks(1)	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 (Agorot)	Dividends as percent of profit	Total dividends paid (NIS in millions)
August 16, 2021	August 31, 2021	188.99	(1)0.30	483.0
November 15, 2021	November 30, 2021	293.47	(2)0.30	752.7
Total dividend distributions in 2021(3)				**1,235.7**
February 28, 2022	March 15, 2022	105.89	0.40	271.6
August 15, 2022	August 30, 2022	122.91	0.30	315.9
November 28, 2022	December 13, 2022	137.43	0.30	353.4
Total dividend distributions in 2022(4)				**940.9**
March 13, 2023	March 28, 2023	126.79	0.30	326.1
May 16, 2023	June 1, 2023	159.35	0.30	410.1
Total dividend distributions in 2023(5)				**736.2**

(1) Dividends rate as percentage of net profit in 2020.
(2) Dividends rate as percentage of net profit in the first nine months of 2021.
(3) Total dividends distributed with respect to 2021 earnings – NIS 1,024.3 million.
(4) Total dividends distributed with respect to 2022 earnings – NIS 1,267.0 million.
(5) Total dividends distributed with respect to 2023 earnings – NIS 410.1 million.

Dividends declared

On August 14, 2023, the Bank’s Board of Directors resolved to distribute dividends amounting to NIS 489.3 million, or 35% of earnings in the second quarter of 2023, in conformity with the Bank’s dividend policy, so as to allow for future growth of the Bank and noting the uncertainty with regard to macro-economic developments.

The dividends are 1901.01% of issued share capital, i.e. NIS 190.10 per NIS 0.1 par value share. The effective date for dividends payment is August 22, 2023 and the payment date is August 29, 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):

	June 30		December 31	Change in % compared to June 30	Change in % compared to December 31
	2023	2022	2022	2022	2022
Securities(1)	525,141	488,710	497,639	7.5	5.5
Assets of provident funds for which the Group provides operating services	136,965	125,772	129,887	8.9	5.4
Assets held in trust by Bank Group	93,942	73,381	81,610	28.0	15.1
Assets of mutual funds for which the Group provides operating services	12,448	11,871	12,663	4.9	(1.7)
Other assets under management(2)	20,791	18,673	21,201	11.3	(1.9)

(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	
	First half		First half	
	2023	2022	2023	2022
Private individuals:				
Households – residential mortgages	561	521	20.3	23.6
Households – other	481	(22)	17.4	–
Private banking	110	37	4.0	1.7
Total individuals	**1,152**	**536**	**41.7**	**24.3**
Business operations:				
Small and micro businesses	497	296	18.0	13.4
Medium businesses	175	70	6.3	3.2
Large businesses	319	151	11.5	6.8
Institutional investors	31	17	1.1	0.8
Total business activity	**1,022**	**534**	**37.0**	**24.2**
Financial management	503	1,070	18.2	48.5
Total activity in Israel	**2,677**	**2,140**	**96.8**	**97.0**
Overseas activity	88	67	3.2	3.0
Total	**2,765**	**2,207**	**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 six months ended June 30					
	2023			2022		
	NIS in millions					
	Other	Residential mortgages	Total	Other	Residential mortgages	Total
Profit and profitability						
Total interest revenues, net	1,866	1,351	3,217	796	1,212	2,008
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	353	75	428	373	67	440
Total revenues	**2,219**	**1,426**	**3,645**	**1,169**	**1,279**	**2,448**
Expenses with respect to credit losses	142	63	205	32	52	84
Operating and other expenses	1,209	503	1,712	1,122	443	1,565
Profit before provision for taxes	868	860	1,728	15	784	799
Provision for taxes	302	299	601	5	263	268
After-tax profit	566	561	1,127	10	521	531
Net profit:						
Attributable to non-controlling interests	(85)	–	(85)	(32)	–	(32)
Attributable to shareholders of the banking corporation	**481**	**561**	**1,042**	**(22)**	**521**	**499**
Balance sheet – key items:						
Loans to the public (end balance)	28,065	201,874	229,939	26,854	190,179	217,033
Loans to the public, net (end balance)	27,497	200,914	228,411	26,477	189,366	215,843
Deposits from the public (end balance)	129,413	–	129,413	123,387	–	123,387
Average balance of loans to the public	26,861	199,566	226,427	25,263	182,569	207,832
Average balance of deposits from the public	127,600	–	127,600	120,193	–	120,193
Average balance of risk assets	21,804	118,587	140,391	23,929	104,119	128,048
Credit spreads and deposit spreads:						
Margin from credit granting operations	554	1,177	1,731	494	1,160	1,654
Margin from activities of receiving deposits	1,286	–	1,286	297	–	297
Other	26	174	200	5	52	57
Total interest revenues, net	**1,866**	**1,351**	**3,217**	**796**	**1,212**	**2,008**

Net profit attributable to the household segment in the first half of 2023 amounted to NIS 1,030 million, compared to NIS 499 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 half of 2023 amounted to NIS 547 million, compared to NIS 521 million in the corresponding period last year.

Net financing revenues from residential mortgage operations amounted to NIS 1,386 million, compared to NIS 1,212 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 63 million, compared to expenses amounting to NIS 52 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 half of 2023 amounted to NIS 483 million, compared to a loss of NIS 22 million in the corresponding period last year.
The increase is primarily due to increase in financing revenues, net, which amounted to NIS 1,811 million, compared to NIS 796 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 half of 2023 amounted to NIS 142 million, compared to expenses of NIS 32 million in the corresponding period last year. The increase is primarily due to increase in the group-based provision in view of higher risk in the market due, *inter alia*, to the higher interest rates.

The increase in commissions and other revenues and 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.

Operating results in the household segment

	For the three months ended June 30					
	2023			2022		
	NIS in millions					
	Other	Residential mortgages	Total	Other	Residential mortgages	Total
Profit and profitability						
Total interest revenues, net	991	683	1,674	434	609	1,043
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	178	40	218	183	31	214
Total revenues	**1,169**	**723**	**1,892**	**617**	**640**	**1,257**
Expenses with respect to credit losses	57	21	78	17	38	55
Operating and other expenses	620	258	878	571	218	789
Profit before provision for taxes	492	444	936	29	384	413
Provision for taxes	172	155	327	10	133	143
After-tax profit (loss)	320	289	609	19	251	270
Net profit:						
Attributable to non-controlling interests	(44)	–	(44)	(20)	–	(20)
Attributable to shareholders of the banking corporation	**276**	**289**	**565**	**(1)**	**251**	**250**
Balance sheet – key items:						
Loans to the public (end balance)	28,065	201,874	229,939	26,854	190,179	217,033
Loans to the public, net (end balance)	27,497	200,914	228,411	26,477	189,366	215,843
Deposits from the public (end balance)	129,413	–	129,413	123,387	–	123,387
Average balance of loans to the public	26,918	200,810	227,728	25,292	186,571	211,863
Average balance of deposits from the public	128,705	–	128,705	120,810	–	120,810
Average balance of risk assets	21,945	119,452	141,397	24,196	105,205	129,401
Credit spreads and deposit spreads:						
Margin from credit granting operations	281	589	870	251	582	833
Margin from activities of receiving deposits	695	–	695	180	–	180
Other	15	94	109	3	27	30
Total interest revenues, net	**991**	**683**	**1,674**	**434**	**609**	**1,043**

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 six months ended June 30		For the three months ended June 30	
	2023	2022	2023	2022
	NIS in millions			
Profit and profitability				
Total interest revenues, net	170	53	87	30
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	9	14	4	8
Total revenues	**179**	**67**	**91**	**38**
Expenses with respect to credit losses	1	–	1	1
Operating and other expenses	9	11	4	6
Profit before provision for taxes	169	56	86	31
Reduction of provision for taxes	59	19	30	11
Net profit	**110**	**37**	**56**	**20**
Balance sheet – key items:				
Loans to the public (end balance)	134	151	134	151
Loans to the public, net (end balance)	132	151	132	151
Deposits from the public (end balance)	27,355	24,029	27,355	24,029
Average balance of loans to the public	133	123	137	130
Average balance of deposits from the public	26,060	22,273	26,423	22,763
Average balance of risk assets	62	71	64	69
Credit spreads and deposit spreads:				
Margin from credit granting operations	–	1	–	–
Margin from activities of receiving deposits	170	50	87	29
Other	–	2	–	1
Total interest revenues, net	**170**	**53**	**87**	**30**

Net profit attributable to the private banking segment in the first half of 2023 amounted to NIS 110 million, compared to NIS 37 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 six months ended June 30		For the three months ended June 30	
	2023	2022	2023	2022
	NIS in millions			
Profit and profitability				
Total interest revenues, net	1,311	767	674	410
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	287	284	142	139
Total revenues	**1,598**	**1,051**	**816**	**549**
Expenses with respect to credit losses	207	25	127	12
Operating and other expenses	618	575	321	295
Profit before provision for taxes	773	451	368	242
Provision for taxes	269	151	129	84
After-tax profit	**504**	**300**	**239**	**158**
Net profit attributed to non-controlling interests	(7)	(4)	(3)	(2)
Net profit attributable to shareholders of the banking corporation	**497**	**296**	**236**	**156**
Balance sheet – key items:				
Loans to the public (end balance)	35,423	34,493	35,423	34,493
Loans to the public, net (end balance)	34,302	33,627	34,302	33,627
Deposits from the public (end balance)	56,223	55,875	56,223	55,875
Average balance of loans to the public	34,502	32,219	34,307	33,100
Average balance of deposits from the public	55,363	53,245	55,065	54,783
Average balance of risk assets	33,156	29,092	33,219	29,956
Credit spreads and deposit spreads:				
Margin from credit granting operations	680	640	349	332
Margin from activities of receiving deposits	574	105	296	69
Other	57	22	29	9
Total interest revenues, net	**1,311**	**767**	**674**	**410**

Net profit attributable to the micro and small businesses segment in the first half of 2023 amounted to NIS 515 million, compared to NIS 296 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net, partially offset by increase in expenses with respect to credit losses.

Financing revenues, net amounted to NIS 1,337 million, compared to NIS 767 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 207 million, compared to expenses of NIS 25 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 commissions and other revenues and 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 six months ended June 30		For the three months ended June 30	
	2023	2022	2023	2022
	NIS in millions			
Profit and profitability				
Total interest revenues, net	333	203	154	110
Non-interest financing revenues (expenses)	–	(1)	–	(1)
Commissions and other revenues	48	51	21	25
Total revenues	**381**	**253**	**175**	**134**
Expenses with respect to credit losses	6	25	18	24
Operating and other expenses	107	123	55	66
Profit before provision for taxes	268	105	102	44
Provision for taxes	93	35	36	15
Net profit	**175**	**70**	**66**	**29**
Balance sheet – key items:				
Loans to the public (end balance)	12,581	11,476	12,581	11,476
Loans to the public, net (end balance)	12,390	11,219	12,390	11,219
Deposits from the public (end balance)	11,980	13,908	11,980	13,908
Average balance of loans to the public	12,201	11,036	12,459	11,759
Average balance of deposits from the public	12,635	14,438	12,066	14,114
Average balance of risk assets	14,516	13,207	14,726	13,342
Credit spreads and deposit spreads:				
Margin from credit granting operations	206	172	89	92
Margin from activities of receiving deposits	104	26	54	16
Other	23	5	11	2
Total interest revenues, net	**333**	**203**	**154**	**110**

Net profit attributable to the medium businesses segment in the first half of 2023 amounted to NIS 175 million, compared to NIS 70 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net. Interest revenues, net amounted to NIS 333 million, compared to NIS 203 million in the corresponding period last year. The increase was primarily due to increase in loans and to increase in the Bank of Israel interest rate.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 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 six months ended June 30		For the three months ended June 30	
	2023	2022	2023	2022
	NIS in millions			
Profit and profitability				
Total interest revenues, net	581	341	296	186
Non-interest financing revenues	–	1	–	–
Commissions and other revenues	108	100	62	44
Total revenues	**689**	**442**	**358**	**230**
Expenses with respect to credit losses	30	36	10	6
Operating and other expenses	170	179	88	91
Profit before provision for taxes	489	227	260	133
Provision for taxes	170	76	91	46
Net profit	**319**	**151**	**169**	**87**
Balance sheet – key items:				
Loans to the public (end balance)	31,932	28,460	31,932	28,460
Loans to the public, net (end balance)	31,594	28,195	31,594	28,195
Deposits from the public (end balance)	34,738	38,132	34,738	38,132
Average balance of loans to the public	32,262	25,166	31,429	26,820
Average balance of deposits from the public	38,440	36,372	37,052	37,521
Average balance of risk assets	42,654	35,383	42,235	36,270
Credit spreads and deposit spreads:				
Margin from credit granting operations	380	276	196	147
Margin from activities of receiving deposits	139	46	68	29
Other	62	19	32	10
Total interest revenues, net	**581**	**341**	**296**	**186**

Net profit attributable to the large businesses segment in the first half of 2023 amounted to NIS 318 million, compared to NIS 151 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net.

Financing revenues, net amounted to NIS 582 million, compared to NIS 342 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 six months ended June 30		For the three months ended June 30	
	2023	**2022**	**2023**	**2022**
	NIS in millions			
Profit and profitability				
Total interest revenues, net	106	84	48	50
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	27	26	13	11
Total revenues	**133**	**110**	**61**	**61**
Expenses (income) with respect to credit losses	–	(1)	–	(5)
Operating and other expenses	86	86	45	48
Profit before provision for taxes	47	25	16	18
Provision for taxes	16	8	5	6
Net profit	**31**	**17**	**11**	**12**
Balance sheet – key items:				
Loans to the public (end balance)	2,596	3,321	2,596	3,321
Loans to the public, net (end balance)	2,593	3,317	2,593	3,317
Deposits from the public (end balance)	75,829	66,998	75,829	66,998
Average balance of loans to the public	852	2,007	956	2,008
Average balance of deposits from the public	66,875	61,646	66,194	63,518
Average balance of risk assets	2,287	1,954	2,259	2,217
Credit spreads and deposit spreads:				
Margin from credit granting operations	10	14	5	7
Margin from activities of receiving deposits	93	59	42	41
Other	3	11	1	2
Total interest revenues, net	**106**	**84**	**48**	**50**

Net profit attributable to the institutional investors segment in the first half of 2023 amounted to NIS 30 million, compared to NIS 17 million in the corresponding period last year.

Interest revenues, net amounted to NIS 105 million, compared to NIS 84 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 six months ended June 30		For the three months ended June 30	
	2023	2022	2023	2022
	NIS in millions			
Profit and profitability				
Total interest revenues, net	412	1,016	145	553
Non-interest financing revenues	337	279	250	164
Commissions and other revenues	238	594	98	121
Total revenues	**987**	**1,889**	**493**	**838**
Expenses with respect to credit losses	–	–	–	–
Operating and other expenses	207	255	106	129
Profit before provision for taxes	780	1,634	387	709
Provision for taxes	271	548	136	245
After-tax profit	509	1,086	251	464
Share of banking corporation in earnings of associated companies	1	2	–	1
Net profit before attribution to non-controlling interests	510	1,088	251	465
Net profit attributed to non-controlling interests	(7)	(18)	(3)	(8)
Net profit (loss) attributable to shareholders of the banking corporation	**503**	**1,070**	**248**	**457**
Balance sheet – key items:				
Average balance of risk assets	15,275	13,041	16,586	13,403
Credit spreads and deposit spreads:				
Margin from credit granting operations	–	–	–	–
Margin from activities of receiving deposits	–	–	–	–
Other	412	1,016	145	553
Total interest revenues, net	**412**	**1,016**	**145**	**553**

Net profit attributable to the financial management segment in the first half of 2023 amounted to NIS 499 million, compared to NIS 1,070 million in the corresponding period last year.

Financing revenues amounted to NIS 743 million, compared to NIS 1,295 million in the corresponding period last year. The decrease was primarily due to lower early repayment commissions and to impact of derivatives and bond realization.

Commissions and other revenues amounted to NIS 239 million, compared to NIS 594 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 six months ended June 30		For the three months ended June 30	
	2023	2022	2023	2022
	NIS in millions			
Profit and profitability				
Total interest revenues, net	197	125	103	71
Non-interest financing revenues	–	14	–	13
Commissions and other revenues	12	17	6	12
Total revenues	**209**	**156**	**109**	**96**
Expenses with respect to credit losses	25	17	13	14
Operating and other expenses	49	36	24	18
Profit before provision for taxes	135	103	72	64
Provision for taxes	47	36	25	22
Net profit	**88**	**67**	**47**	**42**
Balance sheet – key items:				
Loans to the public (end balance)	7,560	5,937	7,560	5,937
Loans to the public, net (end balance)	7,503	5,881	7,503	5,881
Deposits from the public (end balance)	9,653	5,555	9,653	5,555
Average balance of loans to the public	7,057	4,669	7,367	4,965
Average balance of deposits from the public	8,441	4,766	9,396	5,037
Average balance of risk assets	9,004	6,136	9,406	6,385
Credit spreads and deposit spreads:				
Margin from credit granting operations	123	99	64	3
Margin from activities of receiving deposits	11	4	7	(2)
Other	63	22	32	70
Total interest revenues, net	**197**	**125**	**103**	**71**

Net profit attributable to the overseas operations segment in the first half of 2023 amounted to NIS 88 million, compared to NIS 67 million in the corresponding period last year.

Interest revenues, net amounted to NIS 197 million, compared to NIS 125 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 25 million, compared to NIS 17 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

The contribution of investees to net operating profit in the first half of 2023 amounted to NIS 214 million, compared with NIS 338 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 half of 2023 amounted to NIS 99 million, compared to NIS 54 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first half of 2023 was 17.5% on annualized basis, compared to 11.9% in the corresponding period last year.

Bank Yahav's balance sheet total as of June 30, 2023 amounted to NIS 36,182 million, compared to NIS 35,020 million as of December 31, 2022 – an increase by NIS 1,162 million, or 3.3%. Net loans to the public as of June 30, 2023 amounted to NIS 11,994 million, compared to NIS 11,912 million as of December 31, 2022 – an increase by NIS 82 million, or 0.7%. Net deposits from the public as of June 30, 2023 amounted to NIS 31,974 million, compared to NIS 31,103 million as of December 31, 2022 – an increase by NIS 871 million, or 2.8%.

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

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

Tefahot Insurance agency is an insurance agency wholly-owned by the Bank, engaged in sale of life insurance and property insurance policies to mortgage customers of the Bank. Net profit of Tefahot Insurance Agency in the first half of 2023 amounted to NIS 50 million, compared to NIS 34 million 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 half of 2023 amounted to NIS 42.8 million, compared to NIS 24.2 million in the corresponding period last year.

Other investee companies operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in the first half of 2023 NIS 8 million – compared to NIS 9 million in the corresponding period last year.

Investments in shares

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

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

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

Bank investments in shares as of June 30, 2023 amounted to NIS 830 million, compared to NIS 821 million and NIS 779 million as of June 30, 2022 and as of December 31, 2022, respectively. Bank net gain from investment in shares in the first half of 2023 amounted to NIS 31 million, compared to loss amounting to NIS 33 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.

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 second quarter of 2023, the Bank's risk assessment and risk profile remained unchanged from the first quarter of 2023 and from end of 2022, other than regulatory business risk, which is presented for the first time separately from strategic business risk. This risk is estimated to be Medium-High and refers to impact of new legislation and regulations and regulations in core matters of the financial system. The uncertainty with regard to impact of legislation concerning the judicial system and public disagreement on this matter also affect this risk.

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

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 financial institutions are on the rise, hence the Bank reinforces the defense mechanisms applied by the Bank, in order to limit the ability to conduct un-authorized transactions in customer accounts, to maintain network and system robustness and to ensure the availability thereof. These actions are part of the debrief and lesson learning processes in place at the Bank with regard to this evolving threat.

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, regulatory 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 Supervisor of Banks' 2022 Overview included the outcome of the system-wide uniform stress scenario. The results show that a macro-economic shock due to a global slow-down also reflected in recession in the Israeli economy, would significantly impact profitability of the banking system but not endanger its stability. Banks maintained appropriate capital ratios throughout the scenario, with the Tier I shareholders' equity ratio remaining above 6.5% (the minimum equity required by the Supervisor under a stress scenario). The scenario results indicate that higher inflation and interest rates result in higher net interest revenues in the banking system, but are a challenge for borrowers hence resulting in higher credit losses. The stability of banks throughout the scenario is due to the Supervisor of Banks' policy in recent years regarding bolstering of capital, which contributed to relatively high capital ratios at the outset, helped banks to sustain shocks and maintained stability of banks throughout the stress scenario. The Bank's results also indicate robustness and stability throughout the scenario period, while maintaining appropriate regulatory capital and leverage ratios.

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. Risk assessment for each of these risks is re-assessed quarterly, based on the specified risk appetite, including quantitative and qualitative benchmarks, and the actual risk profile, including estimated potential for risk materialization and its impact on the Bank based on the current business environment. This is in conformity with the Bank's annual ICAAP process and its outcome, including self-assessment of risk levels, quality of risk management processes and risk control, including expected direction of risk development over the coming year, in alignment with work plans of the various departments. These results are extensively discussed by Bank management and Board of Directors.

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

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

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

In the second quarter of 2023, the Bank's risk assessment and risk profile remained unchanged from the first quarter of 2023 and from end of 2022, other than regulatory business risk, which is presented for the first time separately from strategic business risk. This risk is estimated to be Medium-High and refers to impact of new legislation and regulations and regulations in core matters of the financial system. The uncertainty with regard to impact of legislation concerning the judicial system and public disagreement on this matter also affect this risk.

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

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

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

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

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

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

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

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

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

The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to limit the ability to defraud customers and to conduct un-authorized transactions in customer accounts and in order to maintain and ensure availability of the Bank's network and systems. These actions are part of the debrief and lesson learning processes in place at the Bank, in line with increase in threats and the challenging requirements which the Bank must comply with. Note that despite the increase in cyber risk world-wide and in Israel, due inter alia to increased use of cloud environments, increased remote working and more sophisticated attacks. Action taken by the Bank in recent years has retained the risk level at the Bank unchanged.

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

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

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

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. The risk assessment remained unchanged and is slightly higher than previously, due to changes to the local and global macro-economic environment and continuation of the Russia-Ukraine war, that increase market uncertainty. Moreover, the impact of legislation changes on the economy further contributes to uncertainty. Interest rates and inflation are 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 June 30, 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 June 30, 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	4	1,206
2.	Civil Engineering Works	402	779	1,181
3.	Construction and real estate	366	583	949
4.	Financial services	47	936	983
5.	Power	560	320	880
6.	Construction and real estate	397	359	756

(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):

	June 30, 2023				June 30, 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	384	1	385	–	333	1	334	–	353	2	355	–
Mining and excavation	532	–	532	–	–	342	342	–	523	–	523	–
Water	173	16	189	–	–	–	–	–	168	18	186	–
Financial services	–	–	–	–	–	–	–	–	260	–	260	–
Total	**1,089**	**17**	**1,106**	**–**	**333**	**343**	**676**	**–**	**1,304**	**20**	**1,324**	**–**

Credit to leveraged companies (NIS in millions):

	June 30, 2023				June 30, 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	228	22	250	–	–	–	–	–	222	40	262	–
Construction and real estate	719	120	839	–	–	–	–	–	394	123	517	–
Power	375	181	556	–	–	–	–	–	376	146	522	–
Commerce	197	4	201	–	138	55	193	–	142	4	146	–
Transport and storage	534	83	617	–	564	60	624	49	564	78	642	31
Total	**2,053**	**410**	**2,463**	**–**	**702**	**115**	**817**	**49**	**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		
	June 30, 2023	**June 30, 2022**	**December 31, 2022**
Problematic credit risk:			
Non-accruing credit risk	2,832	2,778	2,612
Accruing problematic credit risk	1,957	914	1,549
Total problematic credit risk	**4,789**	**3,692**	**4,161**

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

	June 30, 2023	June 30, 2022	December 31, 2022
Percentage of loans to the public:			
Non-accruing loans as percentage of total loans to the public	0.87	0.89	0.83
Non-accruing loans as percentage of total loans other than residential mortgages	0.88	1.18	1.10
Non-accruing loans as percentage of residential mortgages	0.86	0.72	0.68
Problematic loans as percentage of total loans other than residential mortgages	2.42	1.93	2.31
Ratio of residential mortgages in arrears 90 days or longer to total loans to the public	0.45	0.38	0.35
Ratio of problematic credit risk to total credit risk with respect to the public	1.20	0.94	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):

Movement in non-accruing loans to the public	For the six months ended June 30, 2023				For the six months ended June 30, 2022				For the year ended December 31, 2022			
	Commercial	Residential	Individual	Total	Commercial	Residential	Individual	Total	Commercial	Residential	Individual	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	286	782	28	1,096	351	298	40	689	481	482	63	1,026
Loans resuming accrual of interest revenues during the period	(195)	(373)	(5)	(573)	(55)	(95)	(7)	(157)	(68)	(319)	(46)	(433)
Loans subject to accounting write-off	(77)	–	(4)	(81)	(75)	–	(7)	(82)	(164)	–	(8)	(172)
Loans repaid	(238)	(3)	(7)	(248)	(178)	(2)	(9)	(189)	(249)	(8)	(10)	(267)
Non-accruing debt balance at end of period	**969**	**1,735**	**67**	**2,771**	**1,236**	**1,375**	**73**	**2,684**	**1,193**	**1,329**	**55**	**2,577**

Of which: Movement in non-accruing credit subject to re-structuring	For the six months ended June 30, 2023				For the six months ended June 30, 2022				For the year ended December 31, 2022			
	Commercial	Residential	Individual	Total	Commercial	Residential	Individual	Total	Commercial	Residential	Individual	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	51	2	16	69	86	6	20	112	94	11	24	129
Loans resuming accrual of interest revenues during the period	(26)	–	(6)	(32)	(108)	–	(4)	(112)	(116)	–	(8)	(124)
Credit under restructuring written off	(9)	–	(1)	(10)	(9)	–	(2)	(11)	(14)	–	(3)	(17)
Credit under restructuring repaid	(21)	–	(5)	(26)	(63)	–	(13)	(76)	(65)	–	(9)	(74)
Other changes	–	–	–	–	(81)	–	9	(72)	(93)	–	(1)	(94)
Non-accruing credit balance subject to re-structuring – at end of period	**168**	**38**	**38**	**244**	**192**	**31**	**41**	**264**	**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 June 30, 2023					
	Provision for credit losses					
	Loans to the public				Banks, governments and bonds	Total
	Commercial	Housing	Individual – other	Total		
Balance of provision for credit losses at start of period	1,766	944	568	3,278	1	3,279
Expenses with respect to credit losses	168	21	58	247	–	247
Net accounting write-offs	(62)	–	(36)	(98)	–	(98)
Balance of provision for credit losses at end of period	**1,872**	**965**	**590**	**3,427**	**1**	**3,428**
	For the three months ended June 30, 2022					
Balance of provision for credit losses at start of period	1,551	787	415	2,753	1	2,754
Expenses with respect to credit losses	51	38	18	107	–	107
Net accounting write-offs	(30)	–	(16)	(46)	–	(46)
Other(1)	14	–	26	40	–	40
Balance of provision for credit losses at end of period	**1,586**	**825**	**443**	**2,854**	**1**	**2,855**
	For the six months ended June 30, 2023					
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	268	63	143	474	–	474
Net accounting write-offs	(86)	–	(65)	(151)	–	(151)
Balance of provision for credit losses at end of period	**1,872**	**965**	**590**	**3,427**	**1**	**3,428**
	For the six months ended June 30, 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	102	52	32	186	–	186
Net accounting write-offs	(38)	–	(28)	(66)	–	(66)
Other(1)	(9)	1	36	28	–	28
Balance of provision for credit losses at end of period	**1,586**	**825**	**443**	**2,854**	**1**	**2,855**

(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):

	June 30, 2023	June 30, 2022	December 31, 2022
Ratio of provision for credit losses to total loans to the public	1.07	0.96	1.00
Ratio of provision for credit losses to total credit risk with respect to the public	0.84	0.73	0.79
	Six months(1)		
	2023	**2022**	**2022**
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.30	0.11	0.18
Ratio of net write-offs to average balance of loans to the public, gross	0.10	0.03	0.09
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.30	0.11	0.18
Of which: With respect to commercial loans other than residential mortgages	0.72	0.26	0.41
Of which: with respect to residential mortgages	0.06	0.03	0.05
Ratio of net write-offs to average balance of loans to the public, net	0.10	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 June 30	As of December 31
	2023	2022	2022
Debts			
Current account balances	2,022	2,050	2,106
Utilized credit card balances	4,876	4,669	4,648
Auto loans – adjustable interest	2,429	2,318	2,518
Auto loans – fixed interest	3,471	2,258	2,613
Other loans and credit – variable interest	13,605	13,585	13,801
Other loans and credit – fixed interest	644	898	849
Total debt (on-balance sheet credit)	**27,047**	**25,778**	**26,535**
Un-utilized facilities, guarantees and other commitments			
Current accounts – un-utilized facilities	5,376	5,166	5,200
Credit cards – un-utilized facilities	9,035	8,566	8,960
Guarantees	308	286	312
Other liabilities	43	52	36
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**14,762**	**14,070**	**14,508**
Total credit risk to individuals	**41,809**	**39,848**	**41,043**
Of which:			
Bullet / balloon loans[(3)]	709	516	576
Financial asset portfolio and other collateral against credit risk[(4)]			
Financial assets portfolio:			
Deposits	4,293	4,334	4,250
Securities	231	320	275
Other monetary assets	192	235	206
Other collateral[(5)]	3,321	3,207	3,072
Total financial assets portfolio and other collateral against credit risk	**8,037**	**8,096**	**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 June 30, 2023 Number of Borrowers	Total credit risk	As of June 30, 2022 Number of Borrowers	Total credit risk	As of December 31, 2022 Number of Borrowers	Total credit risk
	Up to 10	260,873	807	251,547	1,056	262,086	813
Above 10	Up to 20	112,979	1,657	112,539	1,669	112,216	1,655
Above 20	Up to 40	149,583	4,348	150,150	4,372	149,977	4,398
Above 40	Up to 80	162,009	9,296	159,336	9,093	160,636	9,207
Above 80	Up to 150	103,992	11,223	100,887	10,861	103,027	11,117
Above 150	Up to 300	54,571	11,246	49,615	10,117	52,370	10,761
Above 300		7,880	3,232	6,153	2,680	7,176	3,092
Total		**851,887**	**41,809**	**830,227**	**39,848**	**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 June 30, 2023 NIS in millions	in %	As of June 30, 2022 NIS in millions	in %	As of December 31, 2022 NIS in millions	in %
Accounts with no fixed income for the account[(2)]	7,136	26.4	6,307	24.5	6,677	25.2
Less than NIS 10 thousand	3,904	14.4	4,327	16.8	4,372	16.5
Between NIS 10 thousand and NIS 20 thousand	8,075	29.9	7,847	30.4	8,034	30.3
Over NIS 20 thousand	7,932	29.3	7,297	28.3	7,452	28.0
Total	**27,047**	**100**	**25,778**	**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 June 30, 2023 NIS in millions	in %	As of June 30, 2022 NIS in millions	in %	As of December 31, 2022 NIS in millions	in %
Up to 1 year	4,142	20.6	4,119	21.6	4,246	21.5
Over 1 year to 3 years	6,127	30.4	6,143	32.2	6,234	31.5
Over 3 years to 5 years	4,980	24.7	4,530	23.8	4,717	23.8
Over 5 years to 7 years	2,181	10.8	2,045	10.7	2,098	10.6
Over 7 years[(2)]	2,719	13.5	2,222	11.7	2,486	12.6
Total	**20,149**	**100**	**19,059**	**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 June 30, 2023			As of June 30, 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	245	6	251	215	9	224	222	6	228
Problematic credit risk rate[(2)]	0.91%	0.04%	0.60%	0.83%	0.06%	0.56%	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):

	First half		2022
	2023	2022	
Expense with respect to credit losses as percentage of total loans to the public to individuals	1.07%	0.25%	0.38%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 4.9% compared to June 30, 2022 and by 1.9% compared to December 31, 2022.
- Composition of debts as of June 30, 2023 is as follows:
  Checking accounts - 7.5%
  Credit cards - 18.0%
  Auto loans - 21.8%
  Other loans and credit - 52.7%
- Of all debts (on-balance sheet credit) as of June 30, 2023, 29.7% is secured by financial assets and other collateral in the customer's account (compared to 31.4% as of June 30, 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 second 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 March 2023 to May 2023 (net of seasonal effects) was 5.5% lower than in the previous three months, and review of trend data shows that since August 2022, sales decreased by 3.4% per month. The change in sales trend is in view of higher interest rates (from April 2022 to May 2023, the Bank of Israel raised its interest rate 10 times consecutively, by 4.65 percentage points on aggregate), higher mortgage cost and higher alternative interest rates for investments, which resulted in decrease in apartment buying by investors as well as buyers for residential purposes. Moreover, in September-October 2022 to April-May 2023, prices of new apartments decreased by 1.6% on aggregate.

Total housing construction starts from April 2022 to March 2023 were 62 thousand residential units, a decrease by 10.4% compared to the corresponding period in the previous year. Residential housing construction completions increased by 12%, at 53 thousand residential units.

The higher interest rates, higher mortgage repayments for buyers and higher financing cost for developers have slowed down the demand and new construction starts, and the Bank assumes that the risk associated with this sector is higher.

In late 2022, indications of a slow-down in the high-tech sector appeared; This sector is a major user of office space, and this resulted in a shift to decrease in rent in this segment, which may further decrease as the slow-down becomes more pronounced. Financing of real estate transactions at the Bank is conducted in conformity with clear policy and rules stipulated in the lending policy for various activity channels, such as: financing for land, residential construction, rental real estate, purchase groups, urban renewal, TAMA 38 and so forth. 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 half of 2023, growth 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 new transaction volume, which was impacted by higher interest rates. Consequently, the total credit exposure in the construction and real estate sectors increased by 4.2% in the first half 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 June 30, 2023, as presented below (Credit Risk by Economic Sector) is 15.2%. Note that according to Proper Conduct of Banking Business Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 12.6% (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 constru

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

	June 30, 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	20,746	5,742	11,990	38,478	33	345	147	21
Commercial and industrial	9,172	116	2,230	11,518	119	333	170	6
Total secured by real estate	**29,918**	**5,858**	**14,220**	**49,996**	**152**	**678**	**317**	**27**
Not secured by real estate	5,683	12	5,259	10,954	74	149	153	24
Total for construction and real estate economic sector in Israel	**35,601**	**5,870**	**19,479**	**60,950**	**226**	**827**	**470**	**51**
Of which: Designated for project assistance	20,087	5,836	11,012	36,935	22	332	80	21

	June 30, 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	17,452	6,451	12,049	35,952	29	42	20	26
Commercial and industrial	7,909	132	2,479	10,520	104	28	121	3
Total secured by real estate	**25,361**	**6,583**	**14,528**	**46,472**	**133**	**70**	**141**	**29**
Not secured by real estate	5,732	178	3,895	9,805	116	93	91	27
Total for construction and real estate economic sector in Israel	**31,093**	**6,761**	**18,423**	**56,277**	**249**	**163**	**232**	**56**
Of which: Designated for project assistance	16,917	6,603	11,099	34,619	20	4	18	28

	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):

	June 30, 2023			June 30, 2022			December 31, 2022		
	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Of which:	Off balance sheet	Of which:	Off balance sheet	Of which:	Off balance sheet	Of which:
Secured by real estate									
Real estate yet to be completely constructed:									
Raw land	16,329	967	17,296	13,186	1,046	14,232	15,710	703	16,413
Real estate under construction	6,201	17,239	23,440	5,812	18,113	23,925	5,791	16,833	22,624
Real estate completely constructed	7,388	1,872	9,260	6,363	1,952	8,315	6,901	1,881	8,782
Total credit secured by real estate in Israel	**29,918**	**20,078**	**49,996**	**25,361**	**21,111**	**46,472**	**28,402**	**19,417**	**47,819**
Not secured by real estate	5,683	5,271	10,954	5,732	4,073	9,805	5,352	5,378	10,730
Total credit risk for construction and real estate	**35,601**	**25,349**	**60,950**	**31,093**	**25,184**	**56,277**	**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):

	June 30 2023	December 31 2022	Change
	Credit risk to the public(1)		
Credit risk at performing credit rating:			
Total non-problematic credit risk	57,944	56,077	3.3%
Credit risk other than at performing credit rating:			
Problematic accruing	827	526	57.2%
Problematic non-accruing	226	265	(14.7%)
Non-problematic	1,953	1,681	16.2%
Total credit risk other than at performing credit rating	**3,006**	**2,472**	**21.6%**
Total credit risk for construction and real estate	**60,950**	**58,549**	**4.1%**

(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 borrower indebtedness.

Credit risk by economic sector

As of June 30, 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	1,162	1,132	6	24	1,162	890	24	14	3	2	21
Mining and excavation	1,304	1,288	6	10	1,149	366	7	1	1	–	7
Industry and production	16,286	15,502	231	553	15,886	9,880	543	216	38	11	333
Of which: Diamonds	1,772	1,613	16	143	1,772	1,234	143	55	8	(3)	47
Construction and real estate – construction[6]	51,681	49,303	1,730	648	51,592	26,924	648	159	4	12	332
Construction and real estate – real estate operations	9,269	8,641	223	405	8,748	8,077	404	67	76	3	189
Electricity and water delivery	10,324	10,305	10	9	10,040	6,187	9	3	(2)	4	70
Commerce	16,242	15,291	584	367	16,101	12,076	365	170	50	13	329
Hotels, dining and food services	2,010	1,796	117	97	1,997	1,542	97	50	14	8	101
Transport and storage	3,714	2,920	623	171	3,679	3,081	171	28	15	5	91
Information and communications	2,158	2,097	26	35	2,076	1,342	35	16	7	8	27
Financial services	18,947	18,892	31	24	13,894	8,552	20	20	(8)	–	37
Other business services	6,984	6,643	115	226	6,980	4,687	226	75	19	8	173
Public and community services	3,353	2,963	216	174	3,327	2,674	174	159	41	12	117
Total commercial	**143,434**	**136,773**	**3,918**	**2,743**	**136,631**	**86,278**	**2,723**	**978**	**258**	**86**	**1,827**
Private individuals – residential mortgages	215,299	211,171	2,393	1,735	215,299	201,863	1,735	1,735	63	–	965
Private individuals – other	41,812	41,212	349	251	41,809	27,047	251	67	143	65	590
Total public – activity in Israel	**400,545**	**389,156**	**6,660**	**4,729**	**393,739**	**315,188**	**4,709**	**2,780**	**464**	**151**	**3,382**
Banks in Israel	2,894	2,894	–	–	1,203	861	–	–	–	–	–
Government of Israel	15,378	15,378	–	–	77	77	–	–	–	–	–
Total activity in Israel	**418,817**	**407,428**	**6,660**	**4,729**	**395,019**	**316,126**	**4,709**	**2,780**	**464**	**151**	**3,382**
Borrower activity overseas											
Total public – activity overseas	8,445	8,000	385	60	8,146	4,977	52	24	10	–	45
Overseas banks	17,200	17,200	–	–	16,960	16,943	–	–	–	–	–
Overseas governments	2,235	2,234	–	1	664	448	1	1	–	–	1
Total activity overseas	**27,880**	**27,434**	**385**	**61**	**25,770**	**22,368**	**53**	**25**	**10**	**–**	**46**
Total	**446,697**	**434,862**	**7,045**	**4,790**	**420,789**	**338,494**	**4,762**	**2,805**	**474**	**151**	**3,428**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 338,494; bonds – 19,244; securities borrowed or acquired in conjunction with resale agreements – 4; (on- and off-balance sheet) credit risk with respect to derivatives – 6,660; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 82,295.

(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 1,342 million and off-balance sheet credit risk amounting to NIS 1,824 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 June 30, 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	1,200	1,162	19	19	1,200	942	19	12	(2)	1	21
Mining and excavation	1,004	987	–	17	859	335	17	4	–	–	7
Industry and production	14,779	14,067	203	509	14,351	9,715	509	347	148	32	343
Of which: Diamonds	1,802	1,651	10	141	1,802	1,216	141	91	(10)	(7)	25
Construction and real estate – construction[6]	48,413	47,360	741	312	48,317	23,907	312	183	(35)	(29)	182
Construction and real estate – real estate operations	7,864	7,368	396	100	7,598	6,848	100	66	6	(1)	106
Electricity and water delivery	8,120	8,060	36	24	7,811	4,626	24	13	(7)	15	73
Commerce	15,242	14,423	502	317	15,111	11,469	317	186	(18)	11	228
Hotels, dining and food services	2,147	1,905	105	137	2,145	1,617	137	62	(10)	5	113
Transport and storage	2,821	2,575	40	206	2,809	2,044	206	161	12	(18)	116
Information and communications	2,229	2,174	16	39	2,125	1,464	39	35	18	6	41
Financial services	23,442	23,225	183	34	16,786	10,148	34	8	1	–	35
Other business services	6,744	6,421	128	195	6,713	4,608	195	123	(22)	16	197
Public and community services	3,330	3,087	202	41	3,316	2,631	41	22	(9)	–	63
Total commercial	**137,335**	**132,814**	**2,571**	**1,950**	**129,141**	**80,354**	**1,950**	**1,222**	**82**	**38**	**1,525**
Private individuals – residential mortgages	208,561	205,171	2,015	1,375	208,561	190,162	1,375	1,375	52	–	825
Private individuals – other	39,916	39,378	314	224	39,848	25,778	224	73	32	28	443
Total public – activity in Israel	**385,812**	**377,363**	**4,900**	**3,549**	**377,550**	**296,294**	**3,549**	**2,670**	**166**	**66**	**2,793**
Banks in Israel	2,399	2,399	–	–	647	413	–	–	–	–	–
Government of Israel	14,005	14,005	–	–	107	107	–	–	–	–	–
Total activity in Israel	**402,216**	**393,767**	**4,900**	**3,549**	**378,304**	**296,814**	**3,549**	**2,670**	**166**	**66**	**2,793**
Borrower activity overseas											
Total public – activity overseas	7,471	7,030	298	143	7,123	4,577	143	108	20	–	61
Overseas banks	9,718	9,718	–	–	7,659	7,632	–	–	–	–	–
Overseas governments	7,964	7,963	–	1	390	357	1	1	–	–	1
Total activity overseas	**25,153**	**24,711**	**298**	**144**	**15,172**	**12,566**	**144**	**109**	**20**	**–**	**62**
Total	**427,369**	**418,478**	**5,198**	**3,693**	**393,476**	**309,380**	**3,693**	**2,779**	**186**	**66**	**2,855**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 309,380; bonds – 21,672; securities borrowed or acquired in conjunction with resale agreements – 2,124; Assets with respect to derivatives – 7,080; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 87,113.
(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 1,365 million and off-balance sheet credit risk amounting to NIS 1,950 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 6,537 million for which insurance has been acquired to cover the housing bonds 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)]				Credit losses[(4)]		
		Of which:									
	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)

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

Country	June 30, 2023			June 30, 2022[2][3]			December 31, 2022[2]		
									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	22,134	1,673	23,807	16,702	1,511	18,213	21,520	1,483	23,003
Barbados[7]	5,575	–	5,575	6,081	–	6,081	5,803	–	5,803
Others[8]	11,085	9,111	20,196	9,146	8,244	17,390	6,733	8,932	15,665
Total exposure to foreign countries	**38,794**	**10,784**	**49,578**	**31,929**	**9,755**	**41,684**	**34,056**	**10,415**	**44,471**
Of which: To Greece, Portugal, Spain, Italy	66	9	75	52	4	56	52	4	56
Of which: Total exposure to LDC countries	676	86	762	604	55	659	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 7,017 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 June 30, 2022: NIS 6,580 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 3,644 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):

	June 30, 2023	June 30, 2022	December 31, 2022
	–	UK	–

As of June 30, 2023 and December 31, 2022, there are no foreign countries for which the balance sheet exposure exceeds the threshold for this disclosure (as of June 30, 2022, total balance sheet exposure with respect to the aforementioned country amounted to NIS 3.8 billion).

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

	For the six months ended June 30, 2023	For the six months ended June 30, 2022	For the year ended December 31, 2022
	Barbados[1]	Barbados[1]	Barbados[1]
Exposure at start of reported period	5,803	–	–
Net changes to exposure	(228)	6,081	5,803
Exposure at end of reported period	**5,575**	**6,081**	**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
			June 30, 2023 [(7)]
AAA to AA- [(8)]	6,864	4,702	11,566
A+ to A-	3,227	3,245	6,472
BBB+ to BBB-	–	5	5
BB+ to B-	–	–	–
Lower than B-	–	–	–
Unrated	1	23	24
Total credit exposure to foreign financial institutions	**10,092**	**7,975**	**18,067**

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 agreements[(5)]	After offset of deposits with respect to master netting agreements[(6)]		Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements[(5)]
					June 30, 2022
AAA to AA-	7,426	7,313	6,595	14,021	13,908
A+ to A-	2,113	1,917	245	2,358	2,162
BBB+ to BBB-	20	20	20	40	40
BB+ to B-	–	–	–	–	–
Lower than B-	–	–	–	–	–
Unrated	6	6	40	46	46
Total credit exposure to foreign financial institutions	**9,565**	**9,256**	**6,900**	**16,465**	**16,156**

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 the USA, 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 7,017 million as of June 30, 2023 (as of June 30, 2022: NIS 6,580 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 5,575 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 half 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 in some sectors, including commercial real estate and high-tech.

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

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 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 Bank group exposure, NIS 603 million, is to international affiliates of financial institutions in the USA, mostly with respect to derivatives. This exposure is mainly to major US Banks rated A- or higher, most of them Global Systemically Important Banks (G-SIBs), which are subject to strict regulatory requirements, including stress testing and increased capital requirements. All of these banks have a strong 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 June 2023) was 53.5% (reflecting the LTV ratio upon loan origination – see elaboration 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)		Rate of
	Six months		Change
	2023	2022	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	13,348	24,028	(44.4)
From funds of the Finance Ministry:			
Directed loans	62	110	(43.6)
Standing loans and grants	54	50	8.0
Total new loans	**13,464**	**24,188**	**(44.3)**
Refinanced loans	4,257	3,861	10.3
Total loans originated	**17,721**	**28,049**	**(36.8)**
Number of borrowers (includes refinanced loans)	24,425	35,981	(32.1)

Below are details of various risk attributes of the residential mortgage portfolio[1] as of June 30, 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%	2,463	8,563	19,388	33,412	28,635	13,553	106,014
	35%-50%	671	2,884	4,052	4,989	5,038	3,204	20,838
	50%-80%	–	1	9	30	122	998	1,160
	Over 80%	–	–	–	2	15	85	102
60%-75%	Up to 35%	1,433	5,614	14,748	21,605	11,278	3,715	58,393
	35%-50%	654	2,772	3,625	2,958	1,711	906	12,626
	50%-80%	–	–	11	16	13	220	260
	Over 80%	–	–	–	–	1	17	18
Over 75%	Up to 35%	40	153	255	481	240	920	2,089
	35%-50%	9	36	36	53	52	231	417
	50%-80%	–	–	–	–	2	60	62
	Over 80%	–	–	–	–	–	11	11
Total		**5,270**	**20,023**	**42,124**	**63,546**	**47,107**	**23,920**	**201,990**
Of which:								
Loans granted with original amount over NIS 2 million		909	3,565	6,562	5,569	3,023	1,156	20,784
Percentage of total residential mortgages		17.2%	17.8%	15.6%	8.8%	6.4%	4.8%	10.3%
Loans bearing variable interest:								
Non-linked, at prime lending rate		371	6,529	15,897	20,524	13,675	8,073	65,069
CPI-linked[3]		116	2,648	3,127	1,275	414	2,775	10,355
In foreign currency[3]		16	467	739	1,186	915	817	4,140
Total		**503**	**9,644**	**19,763**	**22,985**	**15,004**	**11,665**	**79,564**
Non-linked loans at prime lending rate, as percentage of total residential mortgages		7.0%	32.6%	37.7%	32.3%	29.0%	33.8%	32.2%
CPI-linked loans bearing variable interest as percentage of total residential mortgages		2.2%	13.2%	7.4%	2.0%	0.9%	11.6%	5.1%
Loans with LTV over 75% as percentage of total residential mortgages		0.9%	0.9%	0.7%	0.8%	0.6%	5.1%	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 June 30, 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 June 30, 2023 was 53.5%, compared to 53.8% on June 30, 2022 and to 54.6% on December 31, 2022. Out of the total loan portfolio of the Bank, amounting to NIS 202.0 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 June 30, 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 17.6%; 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, 0.9% for loans granted 3-12 months ago and 0.9% for loans granted in the second 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%. 82.6% 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 16.6% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is: 39.1%). 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 22.8 billion, or 11.3% 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 20.8 billion on June 30, 2023, or 10.3% 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" and maintains high readiness for emergency scenarios.
The Bank regularly monitors implementation of the work plan and drill plan for 2023. In the second quarter, the Bank completed a periodic update of the policy document with regard to business continuity.
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.

Information security and cyber defense

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

Directive 361 with regard to Cyber Defense Management provides guidelines for proper management of cyber risks, which require expansion and adjustment of the IT risks management framework with regard to the threat space perception and the required defensive capabilities. Accordingly, the Bank Board of Directors approved the cyber defense strategy and approved the risk management framework, including specification of the responsibilities of the various lines of defense and risk management processes from various aspects and the comprehensive cyber defense policy with reference to all required defensive components. The Bank's cyber security is led by the Chief Information Security Officer, reporting directly to the Manager, Risks Control Division – responsible, inter alia, for setting policies on information security and cyber defense at the Bank, development of a cyber defense work plan, monitoring the implementation of this work plan, and in particular activities of the Technology Division for implementing the policy across Bank networks, and review of the effectiveness of systems and processes for information security and cyber defense. There are also several management-level forums that conduct quarterly monitoring of risk management and mitigation, as well as control over appropriateness of resources allocated to this area, in conformity with the risk assessment and changes to the technology environment at the Bank.

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

In the second quarter of 2023, risk remained Medium. In this quarter, a small number of fraud attempts against customers (through phishing attacks) were identified, in which their account credentials were stolen in order to conduct un-authorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in customer accounts. In April, a few DDoS attacks were conducted against the Bank's marketing website, as part of pro-Palestinian campaigns conducted annually around this time. During one of these attacks, a brief impact was felt to operation of the Bank website, but no damage was caused. The transaction website and the app were not impacted by this attack.

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

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

Note that despite the increase in cyber risk world-wide and in Israel, due inter alia to increased use of cloud environments, increased remote working and more sophisticated attacks, primarily ransom attacks – the actions taken by the Bank in recent years have maintained risk at the Bank unchanged.

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 half 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 and 2023, several milestones went live, along with further development of upcoming milestones.

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 half of 2023, legal risk remained Low-medium.

For more information about operating risk, see also the Risks Report 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 half	All of
	2023	**2022**	**2022**
At end of period	1,006	649	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.

The higher VAR is primarily due to more rapid increase in market volatility (in particular since start of 2023).

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):

	June 30, 2023					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	USD	EUR	Other	Total
2% increase	(1,515)	(2,540)	640	13	23	(3,379)
2% decrease	1,635	3,297	(665)	26	(26)	4,267
	June 30, 2022					
2% increase	(1,579)	(1,976)	696	44	23	(2,792)
2% decrease	534	1,385	(725)	(9)	(25)	1,160
	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 June 30, 2023			As of June 30, 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)	20,491	1,384	21,875	27,538	778	28,316	21,360	1,442	22,802
Of which: Banking portfolio	11,419	3,402	14,821	23,739	486	24,225	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 June 30, 2023			As of June 30, 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	(1,395)	549	(846)	(565)	99	(466)	(808)	339	(469)
Of which: Banking portfolio	(1,390)	554	(836)	(510)	91	(419)	(787)	340	(447)
Concurrent 1% decrease	1,144	(634)	510	(168)	(147)	(315)	641	(489)	152
Of which: Banking portfolio	1,139	(640)	499	(217)	(136)	(353)	617	(491)	126
Non-concurrent changes									
Steeper(3)	(1,096)	127	(969)	(84)	(70)	(154)	(1,034)	133	(901)
Shallower(4)	864	14	878	(184)	126	(58)	1,072	25	1,097
Short-term interest increase	(231)	291	60	244	199	443	(4)	333	329
Short-term interest decrease	402	(298)	104	(122)	(205)	(327)	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 1,094 million.

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

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

See Note 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 June 30, 2023			As of June 30, 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	131	1	132	1,432	138	1,570	472	26	498
Of which: Banking portfolio	130	(10)	120	1,394	127	1,521	472	28	500
Concurrent 1% decrease	(882)	(519)	(1,401)	(1,316)	(149)	(1,465)	(1,100)	(272)	(1,372)
Of which: Banking portfolio	(858)	(507)	(1,365)	(1,277)	(142)	(1,419)	(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%, without assuming any change to total bonds in the nostro portfolio, the capital reserve with respect to securities is expected to decrease by NIS 288 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 June 30, 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)	2,665.5	1,332.8	(1,332.8)	(2,665.5)	302.0	(239.1)
USD	23.3	10.9	(3.6)	0.6	7.6	(3.1)
GBP	1.3	0.5	(0.2)	(0.7)	0.3	(0.3)
JPY	2.3	1.1	(0.4)	0.4	1.2	(0.3)
EUR	14.7	3.1	(0.1)	(0.7)	1.3	(0.1)
SFR	1.3	0.5	(0.2)	(0.7)	0.3	(0.3)

(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 799.7 million and NIS (799.7) 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 half of 2023 there were no deviations from the Board of Directors' limitations.

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 (on consolidated basis) for the second quarter of 2023 was 128%. 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 June 30, 2023 was 115%. No deviations from the risk appetite limitations were recorded.

As of June 30, 2023, the balance of the three largest depositor groups at the Bank Group amounted to NIS 20.8 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.

Compliance and regulatory risk remained Low-Medium in the current quarter. The Bank applies the new regulatory provisions and acts as stipulated to apply the directives revised during this quarter.

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 half of 2023, at 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, Definition of cross-border risk in accounts 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.

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.

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

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 half of 2023, at 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 half 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 second quarter of 2023, reputational risk was Low. The Bank regularly and methodically monitors diverse benchmarks for Bank reputation; through the quarter no material impact to reputational risk was identified. This is despite significant operations of competitors and despite the intense public and media coverage of the cost of living and the impact of higher interest rates.

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.

Regulatory-business risk

Risk description and development thereof

Regulatory business risk is presented, for the first time, separately from strategic business risk.

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

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 June 30, 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 June 30, 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 second 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
August 14, 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 June 30, 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

August 14, 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 June 30, 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

August 14, 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 June 30, 2023, the condensed consolidated statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the six-month and three-month periods 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 these interim periods, based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 4.25% of total consolidated assets as of June 30, 2023, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 5.54% and 5.27% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the six-month and three-month periods then ended. The condensed financial information for interim periods 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, August 14, 2023

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Bank Mizrahi Tefahot

Condensed financial statements as of June 30, 2023

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Condensed consolidated statements of profit and loss

Reported amounts (NIS in millions)

		For the three months ended June 30		For the six months ended June 30		For the year ended December 31
		2023	**2022**	**2023**	**2022**	**2022**
	Note		**(Unaudited)**		**(Unaudited)**	**(Audited)**
Interest revenues	2	6,339	3,961	12,099	7,105	16,195
Interest expenses	2	3,158	1,508	5,772	2,508	5,955
Interest revenues, net		3,181	2,453	6,327	4,597	10,240
Expenses (income) with respect to credit losses	6.13	247	107	474	186	532
Interest revenues, net after expenses with respect to credit losses		**2,934**	**2,346**	**5,853**	**4,411**	**9,708**
Non-interest revenues						
Non-interest financing revenues	3	250	176	337	293	754
Commissions		501	508	1,029	1,028	2,052
Other revenues		63	66	128	498	622
Total non-interest revenues		**814**	**750**	**1,494**	**1,819**	**3,428**
Operating and other expenses						
Payroll and associated expenses		1,009	924	1,940	1,833	4,029
Maintenance and depreciation of buildings and equipment		272	254	578	491	1,012
Other expenses		240	264	440	506	1,132
Total operating and other expenses		**1,521**	**1,442**	**2,958**	**2,830**	**6,173**
Pre-tax profit		2,227	1,654	4,389	3,400	6,963
Provision for taxes on profit		779	572	1,526	1,141	2,356
After-tax profit		**1,448**	**1,082**	**2,863**	**2,259**	**4,607**
Share in profit (loss) of associated companies, after tax		–	1	1	2	5
Net profit:						
Before attribution to non-controlling interests		1,448	1,083	2,864	2,261	4,612
Attributable to non-controlling interests		(50)	(30)	(99)	(54)	(140)
Attributable to shareholders of the Bank		**1,398**	**1,053**	**2,765**	**2,207**	**4,472**

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

Moshe Vidman
Chairman of the Board of Directors

Moshe Lari
President & CEO

Menahem Aviv
Vice-President
Chief Accountant

Approval date:
Ramat Gan, August 14, 2023

Condensed consolidated statements of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2023	2022	2023	2022	2022
		(Unaudited)		(Unaudited)	(Audited)
Earnings per share[(1)] (in NIS)					
Basic earnings					
Net profit attributable to shareholders of the Bank	5.43	4.11	10.74	8.65	17.47
Weighted average number of ordinary shares used to calculate basic earnings (thousands of shares)	257,341	256,515	257,351	255,111	255,953
Diluted earnings					
Net profit attributable to shareholders of the Bank	5.41	4.09	10.71	8.61	17.38
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	258,439	257,769	258,255	256,479	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 June 30		For the six months ended June 30		For the year ended December 31
		2023	2022	2023	2022	2022
	Note		(Unaudited)	(Unaudited)		(Audited)
Net profit:						
Before attribution to non-controlling interests		1,448	1,083	2,864	2,261	4,612
Attributable to non-controlling interests		(50)	(30)	(99)	(54)	(140)
Net profit attributable to shareholders of the Bank		**1,398**	**1,053**	**2,765**	**2,207**	**4,472**
Other comprehensive income (loss) before taxes	4					
Adjustments for presentation of available-for-sale bonds at fair value, net		35	(351)	40	(695)	(809)
Adjustments from translation of financial statements of investments in associated companies[(1)]		–	–	–	–	–
Net gains (losses) with respect to cash flows hedging		4	17	4	6	18
Adjustments of liabilities with respect to employees' benefits[(2)]		(109)	178	(78)	392	517
Total other comprehensive income (loss), before tax		**(70)**	**(156)**	**(34)**	**(297)**	**(274)**
Related tax effect		26	65	14	113	70
Other comprehensive income (loss) after taxes[(3)]						
Other comprehensive income (loss), before attribution to non-controlling interests		(44)	(91)	(20)	(184)	(204)
Less other comprehensive income (loss) attributed to non-controlling interests		(12)	2	(11)	7	7
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**(32)**	**(93)**	**(9)**	**(191)**	**(211)**
Comprehensive income:						
Before attribution to non-controlling interests		1,404	992	2,844	2,077	4,408
Attributable to non-controlling interests		(38)	(32)	(88)	(61)	(147)
Comprehensive income attributable to shareholders of the Bank		**1,366**	**960**	**2,756**	**2,016**	**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 June 30		As of December 31
		2023	**2022**	**2022**
	Note	**(Unaudited)**		**(Audited)**
Assets				
Cash and deposits with banks		83,746	81,330	93,673
Securities[1][2]	5	19,865	22,384	15,144
Securities borrowed or purchased in resale agreements		4	2,124	315
Loans to the public	6.13	320,165	300,871	310,356
Provision for credit losses	6.13	(3,240)	(2,638)	(2,884)
Loans to the public, net	6.13	316,925	298,233	307,472
Loans to Governments		525	464	318
Investments in associated companies		197	109	127
Buildings and equipment		1,438	1,421	1,503
Intangible assets and goodwill		163	193	178
Assets with respect to derivatives	11	5,831	7,080	5,789
Other assets		4,028	3,631	3,773
Total assets		**432,722**	**416,969**	**428,292**
Liabilities and Equity				
Deposits from the public	7	345,191	327,884	344,514
Deposits from banks		6,541	8,515	6,994
Deposits from the Government		29	57	47
Bonds and subordinated notes		36,546	35,173	33,287
Liabilities with respect to derivatives	11	4,833	6,264	5,214
Other liabilities [3]		12,592	15,893	13,368
Total liabilities		**405,732**	**393,786**	**403,424**
Shareholders' equity attributable to shareholders of the Bank		25,814	22,166	23,780
Non-controlling interests		1,176	1,017	1,088
Total equity		**26,990**	**23,183**	**24,868**
Total liabilities and equity		**432,722**	**416,969**	**428,292**

(1) Of which: NIS 16,260 million at fair value on consolidated basis (on June 30, 2022: NIS 18,549 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 187 million (on June 30, 2022: NIS 216 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 June 30, 2023 (unaudited)							
Balance as of March 31, 2023	3,520	98	3,618	(491)	21,717	24,844	1,138	25,982
Net profit for the period	–	–	–	–	1,398	1,398	50	1,448
Dividends paid(4)	–	–	–	–	(410)	(410)	–	(410)
Benefit from share-based payment transactions	–	14	14	–	–	14	–	14
Realization of share-based payment transactions(5)	6	(6)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(32)	–	(32)	(12)	(44)
Balance as of June 30, 2023	**3,526**	**106**	**3,632**	**(523)**	**22,705**	**25,814**	**1,176**	**26,990**
	For the three months ended June 30, 2022 (unaudited)							
Balance as of March 31, 2022	3,497	76	3,573	(401)	18,027	21,199	985	22,184
Net profit for the period	–	–	–	–	1,053	1,053	30	1,083
Benefit from share-based payment transactions	–	7	7	–	–	7	–	7
Realization of share-based payment transactions(5)	3	(3)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(93)	–	(93)	2	(91)
Balance as of June 30, 2022	**3,500**	**80**	**3,580**	**(494)**	**19,080**	**22,166**	**1,017**	**23,183**

(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 June 1, 2023, a dividend distribution amounting to NIS 410 million was made in conformity with resolution by the Bank's Board of Directors.
(5) In the second quarter of 2023, 189,916 ordinary shares of NIS 0.1 par value were issued for exercise of options pursuant to the Employee Stock Option Plan. In the second quarter of 2022, 76,263 ordinary shares of NIS 0.1 par value were issued for exercise of options pursuant to the Employee Stock Option Plan.
– On August 14, 2023, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 489.3 million, or 35% of earnings in the second quarter of 2023, in conformity with the Bank's dividend policy. According to accounting rules, this amount will be deducted from retained earnings in the third quarter of 2023.

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	sCumulative other comprehensive income (loss)[(2)]	Retained earnings[(3)]	Total share-holders' equity	Non-controlling interests	Total equity
	For the six months ended June 30, 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	–	–	–	–	2,765	2,765	99	2,864
Dividends paid[(4)]	–	–	–	–	(736)	(736)	–	(736)
Benefit from share-based payment transactions	–	14	14	–	–	14	–	14
Realization of share-based payment transactions[(6)]	7	(7)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(9)	–	(9)	(11)	(20)
Balance as of June 30, 2023	**3,526**	**106**	**3,632**	**(523)**	**22,705**	**25,814**	**1,176**	**26,990**
	For the six months ended June 30, 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[(5)]	–	–	–	–	(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	–	–	–	–	2,207	2,207	54	2,261
Dividends paid[(4)]	–	–	–	–	(272)	(272)	–	(272)
Benefit from share-based payment transactions	–	7	7	–	–	7	–	7
Realization of share-based payment transactions[(6)]	3	(3)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(191)	–	(191)	7	(184)
Balance as of June 30, 2022	**3,500**	**80**	**3,580**	**(494)**	**19,080**	**22,166**	**1,017**	**23,183**
	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[(5)]	–	–	–	–	(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[(6)]	22	(22)	–	–	–	–	–	–
Dividends attributable to non-controlling interests in subsidiary	–	–	–	–	–	–	(15)	(15)
Other comprehensive income (loss), net, after tax	–	–	–	(211)	–	(211)	7	(204)
Balance as of December 31, 2022	**3,519**	**99**	**3,618**	**(514)**	**20,676**	**23,780**	**1,088**	**24,868**

(1) Share premium generated prior to March 31, 1986.
(2) For more information see Note 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 and June 1, 2023, the Bank paid dividends amounting to NIS 326 and 410 million, respectively, in conformity with a decision by the Bank's Board of Directors.
On March 15, 2022, August 30, 2022 and December 13, 2022, the Bank paid dividends amounting to NIS 272, 316 and 353 million, respectively, in conformity with a decision by the Bank's Board of Directors.
(5) 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.
(6) in the first half of 2023, 205,099 ordinary shares of NIS 0.1 par value were issued for exercise of options pursuant to the Employee Stock Option Plan.
in the first half of 2022, 81,632 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.
– On August 14, 2023, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 489.3 million, or 35% of earnings in the second quarter of 2023, in conformity with the Bank's dividend policy. According to accounting rules, this amount will be deducted from retained earnings in the third 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 June 30		For the six months ended June 30		For the year ended December 31
	2023	**2022(1)**	**2023**	**2022(1)**	**2022(1)**
		(Unaudited)		**(Unaudited)**	**(Audited)**
Cash Flows from Current Activity					
Net profit before attribution to non-controlling interests	1,448	1,083	2,864	2,261	4,612
Adjustments					
Share of the Bank in undistributed earnings of associated companies	–	(1)	(1)	(2)	(5)
Depreciation of buildings and equipment (including impairment)	100	101	244	173	332
Expenses with respect to credit losses	247	107	474	186	532
Gain from sale of securities available for sale and shares not held for trading	3	24	40	8	14
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(5)	(18)	(3)	(31)	(103)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(22)	30	(17)	23	45
Gain from sale of buildings and equipment	–	–	–	(240)	(241)
Impairment of securities held for sale and shares not held for trading	3	14	5	16	50
Expenses arising from share-based payment transactions	14	7	14	7	45
Deferred taxes, net	(24)	(124)	(187)	(466)	(408)
Change in employees' provisions and liabilities	(77)	543	(161)	386	138
Adjustments with respect to exchange rate differentials	(153)	(365)	(358)	(419)	(463)
Gain from sale of loan portfolios	–	–	–	–	(8)
Accrual differences included with investment and financing operations	2,256	309	1,995	410	198
Net change in current assets					
Assets with respect to derivatives	430	(3,709)	(38)	(3,421)	(2,119)
Securities held for trading	180	76	(483)	(211)	(147)
Other assets, net	(324)	(16)	(5)	13	(15)
Net change in current liabilities					
Liabilities with respect to derivatives	(1,155)	3,324	(381)	2,511	1,461
Other liabilities	803	2,232	(727)	2,170	(19)
Net cash provided by current operations	3,724	**3,617**	**3,275**	**3,374**	**3,899**

(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 June 30		For the six months ended June 30		For the year ended December 31
	2023	2022[1]	2023	2022[1]	2022[1]
		(Unaudited)		(Unaudited)	(Audited)
Cash flows from investment activities					
Net change in deposits with banks	1,158	59	42	(453)	(202)
Net change in loans to the public	(4,464)	(14,666)	(7,718)	(25,876)	(36,246)
Net change in loans to Governments	6	(7)	(207)	13	159
Net change in securities loaned or acquired in resale agreements	11	(1,582)	311	(792)	1,017
Acquisition of bonds held to maturity	(357)	(814)	(371)	(957)	(1,821)
Proceeds from redemption of bonds held to maturity	294	34	652	127	851
Purchase of securities available for sale and shares not held for trading	(4,158)	(7,291)	(7,180)	(10,253)	(15,233)
Proceeds from sale of securities available for sale and shares not held for trading	1,999	3,511	3,145	4,140	17,132
Proceeds from redemption of securities available for sale	555	91	622	181	222
Proceeds from sale of loan portfolios	–	3	25	3	1,943
Purchase of loan portfolios – public	(825)	(457)	(1,533)	(1,039)	(2,306)
Acquisition of buildings and equipment	(139)	(80)	(178)	(121)	(391)
Proceeds from sale of buildings and equipment	–	(42)	–	502	532
Purchase of shares in associated companies	(4)	1	(20)	(39)	(61)
Proceeds from realized investment in associated companies	–	–	–	1	8
Net cash provided by investment activities	**(5,924)**	**(21,240)**	**(12,410)**	**(34,563)**	**(34,396)**
Cash flows provided by financing operations					
Net change in deposits from the public	(3,789)	13,793	(2,485)	18,522	34,446
Net change in deposits from banks	(743)	1,665	(453)	1,523	2
Net change in deposits from Government	(3)	(9)	(18)	(24)	(34)
Issuance of bonds and subordinated notes	2,000	2,402	3,089	2,402	5,038
Redemption of bonds and subordinated notes	(344)	(3,870)	(505)	(5,771)	(10,258)
Dividends paid to shareholders	(410)	–	(736)	(272)	(941)
Dividends paid to external shareholders in subsidiaries	–	–	–	–	(15)
Net cash provided by financing operations	**(3,289)**	**13,981**	**(1,108)**	**16,380**	**28,238**
Increase (decrease) in cash	(5,489)	(3,642)	(10,243)	(14,809)	(2,259)
Cash balance at beginning of the period	88,316	83,548	92,865	94,661	94,661
Effect of changes in exchange rate on cash balances	153	365	358	419	463
Cash balance at end of the period	**82,980**	**80,271**	**82,980**	**80,271**	**92,865**
Interest and taxes paid / received					
Interest received	4,950	1,932	10,025	4,711	11,577
Interest paid	2,419	1,578	4,390	2,657	5,416
Dividends received	5	7	7	10	36
Income taxes received	4	10	21	34	140
Income taxes paid	1,062	575	1,822	942	2,211
Appendix A – Non-cash Transactions					
Acquisition of buildings and equipment	1	1	1	1	1
Sales of buildings and equipment	–	–	–	–	–

(1) Reclassified.

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

Note 1 – Reporting Principles and Accounting Policies

A. Overview

On August 14, 2023, the Bank's Board of Directors authorized publication of these condensed financial statements as of June 30, 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.	January 1, 2024	The Bank is preparing to implement the directive. No material impact is expected on the 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 on the financial statements.
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency "	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale bonds as part of fair value adjustment of such bonds, but rather to continue treating these as stipulated in the Public Reporting Directives prior to adoption of Section 830 of the Codification "Foreign currency", through December 31, 2023.	January 1, 2024	No material impact is expected on the financial statements.

Note 2 – Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2023	2022	2023	2022	2022
		(Unaudited)		(Unaudited)	(Audited)
a. Interest revenues[1]					
From loans to the public	5,378	3,764	10,253	6,814	14,794
From loans to Governments	6	2	11	6	11
From deposits with the Bank of Israel and from cash	818	94	1,558	120	1,014
From deposits with banks	31	6	54	7	38
Of securities borrowed or purchased in resale agreements	1	1	3	1	10
From bonds	105	94	220	157	328
Total interest revenues	**6,339**	**3,961**	**12,099**	**7,105**	**16,195**
B. Interest expenses					
On deposits from the public	2,669	872	4,891	1,461	4,168
On deposits from governments	1	–	1	–	3
On deposits from banks	31	1	57	2	9
On bonds and subordinated notes	451	627	817	1,037	1,744
On other liabilities	6	8	6	8	31
Total interest expenses	**3,158**	**1,508**	**5,772**	**2,508**	**5,955**
Total interest revenues, net	**3,181**	**2,453**	**6,327**	**4,597**	**10,240**
c. Details of net effect of hedging financial derivatives on interest revenues	11	32	(14)	83	18
d. Details of interest revenues on accrual basis from bonds					
Held to maturity	19	15	65	24	57
Available for sale	86	78	154	130	253
Held for trading	–	1	1	3	18
Total included under interest revenues	**105**	**94**	**220**	**157**	**328**

(1) Includes the effective element in the hedging ratios.

Note 3 – Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2023	2022	2023	2022	2022
		(Unaudited)		(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)]	915	2,464	1,616	2,939	3,450
Total from activity in derivative instruments	**915**	**2,464**	**1,616**	**2,939**	**3,450**
2. From investment in bonds					
Gains on sale of bonds available for sale	(10)	(23)	(52)	(13)	(55)
Provision for impairment of bonds available for sale	(3)	–	(5)	–	(5)
Total from investment in bonds	**(13)**	**(23)**	**(57)**	**(13)**	**(60)**
3. Exchange rate differences, net	**(622)**	**(2,476)**	**(1,173)**	**(2,974)**	**(3,063)**
4. Gains from investment in shares					
Gains from sale of shares not held for trading	7	(1)	12	5	41
Provision for impairment of shares not held for trading	–	(14)	–	(16)	(45)
Dividends from shares not held for trading	5	7	7	10	36
Unrealized gains (losses)[(3)]	17	(37)	10	(33)	(81)
Total from investment in shares	**29**	**(45)**	**29**	**(34)**	**(49)**
5. Net gains with respect to loans sold	**–**	**–**	**–**	**–**	**8**
Total non-interest financing revenues with respect to non-trading purposes	**309**	**(80)**	**415**	**(82)**	**286**
b. Non-interest financing revenues (expenses) with respect to trading operations[(2)]					
Net revenues (expenses) with respect to other derivative instruments	(64)	238	(81)	344	365
Realized and un-realized gains (losses) from adjustment to fair value of bonds held for trading, net	4	11	2	22	98
Realized and un-realized gains (losses) from adjustment to fair value of shares held for trading, net	1	7	1	9	5
Total from trading activity[(4)]	**(59)**	**256**	**(78)**	**375**	**468**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	(6)	4	6	21	103
Foreign currency exposure	(53)	252	(84)	354	365
Exposure to shares	–	–	–	–	–
Exposure to commodities and others	–	–	–	–	–
Total	**(59)**	**256**	**(78)**	**375**	**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					Other compre-hensive income attributed to non-controlling interests	Other compre-hensive income (loss) attribu-table to share-holders of the Bank
	Adjust-ments for presentation of available-for-sale bonds at fair value	Translation adjustments[1]	Net gains (losses) from cash flow hedges	Adjust-ments with respect to emplo-yees' benefits	Total		
	For the three months ended June 30, 2023						
	(Unaudited)						
Balance as of March 31, 2023	(455)	(2)	–	(51)	(508)	(17)	(491)
Net change in the period	25	–	3	[2](72)	(44)	(12)	(32)
Balance as of June 30, 2023	**(430)**	**(2)**	3	**(123)**	**(552)**	**(29)**	**(523)**
	For the three months ended June 30, 2022						
	(Unaudited)						
Balance as of March 31, 2022	(130)	(2)	(19)	(270)	(421)	(20)	(401)
Net change in the period	(228)	–	11	126	(91)	2	(93)
Balance as of June 30, 2022	**(358)**	**(2)**	**(8)**	**(144)**	**(512)**	**(18)**	**(494)**
	For the six months ended June 30, 2023						
	(Unaudited)						
Balance as of December 31, 2022	(458)	(2)	–	(72)	(532)	(18)	(514)
Net change in the period	28	–	3	(51)	(20)	(11)	(9)
Balance as of June 30, 2023	**(430)**	**(2)**	3	**(123)**	**(552)**	**(29)**	**(523)**
	For the six months ended June 30, 2022						
	(Unaudited)						
Balance as of December 31, 2021	98	(2)	(12)	(412)	(328)	(25)	(303)
Net change in the period	(456)	–	4	268	(184)	7	(191)
Balance as of June 30, 2022	**(358)**	**(2)**	**(8)**	**(144)**	**(512)**	**(18)**	**(494)**
	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) Includes the effect of special collective bargaining agreement signed by the Bank and by Mizrahi Tefahot Employee Union. For further details, see Note 8.

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 June 30					
			2023			2022
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
						(Unaudited)
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	22	(6)	16	(374)	130	(244)
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[(1)]	13	(4)	9	23	(7)	16
Net change in the period	**35**	**(10)**	**25**	**(351)**	**123**	**(228)**
Translation adjustments						
Adjustments from translation of financial statements[(2)]	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges						
Net losses from cash flow hedges	4	(1)	3	17	(6)	11
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[(3)]	–	–	–	–	–	–
Net change in the period	**4**	**(1)**	**3**	**17**	**(6)**	**11**
Employees' benefits						
Net actuarial gain (loss) for the period	[(4)](119)	40	(79)	161	(46)	115
Net losses reclassified to the statement of profit and loss	10	(3)	7	17	(6)	11
Net change in the period	**(109)**	**37**	**(72)**	**178**	**(52)**	**126**
Total net change in the period	**(70)**	**26**	**(44)**	**(156)**	**65**	**(91)**
Total net change in the period attributable to non-controlling interests	**(19)**	**7**	**(12)**	**3**	**(1)**	**2**
Total net change in the period attributable to shareholders of the Bank	**(51)**	**19**	**(32)**	**(159)**	**66**	**(93)**

(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) Includes the effect of special collective bargaining agreement signed by the Bank and by Mizrahi Tefahot Employee Union. For further details, see Note 8.

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 – continued

	For the six months ended June 30						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	(17)	7	(10)	(708)	243	(465)	(864)	272	(592)
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[(1)]	57	(19)	38	13	(4)	9	55	(19)	36
Net change in the period	**40**	**(12)**	**28**	**(695)**	**239**	**(456)**	**(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	4	(1)	3	6	(2)	4	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	**4**	**(1)**	**3**	**6**	**(2)**	**4**	**18**	**(6)**	**12**
Employees' benefits									
Net actuarial gain (loss) for the period	[(4)](96)	33	(63)	364	(114)	250	455	(156)	299
Net losses reclassified to the statement of profit and loss	18	(6)	12	28	(10)	18	62	(21)	41
Net change in the period	**(78)**	**27**	**(51)**	**392**	**(124)**	**268**	**517**	**(177)**	**340**
Total net change in the period	**(34)**	**14**	**(20)**	**(297)**	**113**	**(184)**	**(274)**	**70**	**(204)**
Total net change in the period attributable to non-controlling interests	**(17)**	**6**	**(11)**	**11**	**(4)**	**7**	**11**	**(4)**	**7**
Total net change in the period attributable to shareholders of the Bank	**(17)**	**8**	**(9)**	**(308)**	**117**	**(191)**	**(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) Includes the effect of special collective bargaining agreement signed by the Bank and by Mizrahi Tefahot Employee Union. For further details, see Note 8.

Note 5 – Securities

June 30, 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	2,775	2,775	–	–	(135)	2,640
Of financial institutions in Israel	362	362	–	–	(19)	343
Of others in Israel	116	116	–	–	(4)	112
Total bonds held to maturity	**3,253**	**3,253**	**–**	**–**	**(158)**	**3,095**
	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	6,313	6,814	–	28	(529)	6,313
of foreign governments[3]	1,242	1,250	–	–	(8)	1,242
Of financial institutions in Israel	446	483	–	6	(43)	446
Of foreign financial institutions	240	251	–	1	(12)	240
Asset-backed (ABS)	56	59	–	–	(3)	56
Of others in Israel	902	954	–	9	(61)	902
Of others overseas	196	204	–	4	(12)	196
Total bonds available for sale	**9,395**	**10,015**	**–**	**48**	**(668)**	**9,395**
	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	**605**	**546**	**–**	**77**	**(18)**	**605**
Of which: Shares for which no fair value is available[6]	352	340	–	12	–	352
Total securities not held for trading	**13,253**	**13,814**	**–**	**125**	**(844)**	**13,095**

Note 5 – Securities – continued

June 30, 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) Gains	Losses	Fair value(1)
(4) Bonds held for trading						
of Government of Israel	6,209	6,247	–	–	(38)	6,209
Of foreign governments	329	330	–	1	(2)	329
Of financial institutions in Israel	3	3	–	–	–	3
Of others in Israel	22	22	–	1	(1)	22
Of others overseas	33	34	–	1	(2)	33
Total bonds held for trading	**6,596**	**6,636**	**–**	**3**	**(43)**	**6,596**
Shares and other securities	16	15	–	3	(2)	16
Total securities held for trading	**6,612**	**6,651**	**–**	**6**	**(45)**	**6,612**
Total securities(2)	**19,865**	**20,465**	**–**	**131**	**(889)**	**19,707**

(5) Additional information about bonds

Recorded debt balance of	
Problematic bonds accruing interest revenues	–
Problematic bonds not accruing interest revenues	28
	28

(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 365 million and securities provided as collateral to lenders, amounting to NIS 50 million.
(3) US government bonds.
(4) Included in shareholders' equity in "adjustments on presentation of bonds available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:

– For information about results of investments in bonds, see Notes 2D, 3A.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

June 30, 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 – Gains	Adjustments to fair value yet to be recognized – Losses	Fair value[1]
(1) Bonds held to maturity						
of Government of Israel	2,848	2,848	–	10	(63)	2,795
Of financial institutions in Israel	449	449	–	–	(8)	441
Of others in Israel	112	112	–	–	(1)	111
Total bonds held to maturity	**3,409**	**3,409**	**–**	**10**	**(72)**	**3,347**

	Carrying amount	Amortized cost	Balance of provision for credit losses	Cumulative other comprehensive income[4] – Gains	Cumulative other comprehensive income[4] – Losses	Fair value[1]
(2) Bonds available for sale						
of Government of Israel	6,775	7,255	–	17	(497)	6,775
of foreign governments[3]	7,574	7,594	–	–	(20)	7,574
Of financial institutions in Israel	419	447	–	–	(28)	419
Of foreign financial institutions	252	264	–	–	(12)	252
Asset-backed (ABS)	54	57	–	–	(3)	54
Of others in Israel	721	729	–	27	(35)	721
Of others overseas	240	235	–	9	(4)	240
Total bonds available for sale	**16,035**	**16,581**	**–**	**53**	**(599)**	**16,035**

	Carrying amount	Cost	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5] – Gains	Adjustments to fair value yet to be realized[5] – Losses	Fair value[1]
(3) Investment in shares not held for trading	**690**	**595**	**–**	**101**	**(6)**	**690**
Of which: Shares for which no fair value is available[6]	426	411	–	15	–	426
Total securities not held for trading	**20,134**	**20,585**	**–**	**164**	**(677)**	**20,072**

Note 5 – Securities – continued

June 30, 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] Gains	Losses	Fair value[1]
(4) Bonds held for trading						
of Government of Israel	2,151	2,170	–	2	(21)	2,151
Of financial institutions in Israel	1	1	–	–	–	1
Of others in Israel	32	31	–	2	(1)	32
Of others overseas	44	45	–	1	(2)	44
Total bonds held for trading	**2,228**	**2,247**	**–**	**5**	**(24)**	**2,228**
Shares and other securities	22	20	–	4	(2)	22
Total securities held for trading	**2,250**	**2,267**	**–**	**9**	**(26)**	**2,250**
Total securities[2]	**22,384**	**22,852**	**–**	**173**	**(703)**	**22,322**

(5) Additional information about bonds	
Recorded debt balance of	–
Impaired bonds not accruing interest revenues	42
	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 774 million and securities provided as collateral to lenders, amounting to NIS 160 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] Gains	Losses	Fair value[1]
(4) Bonds held for trading						
of Government of Israel	2,749	2,804	–	–	(55)	2,749
Of foreign governments	127	127		1	(1)	127
Of financial institutions in Israel	1	1	–	–	–	1
Of others in Israel	25	25	–	1	(1)	25
Of others overseas	42	43	–	–	(1)	42
Total bonds held for trading	**2,944**	**3,000**	**–**	**2**	**(58)**	**2,944**
Shares and other securities	20	18	–	3	(1)	20
Total securities held for trading	**2,964**	**3,018**	**–**	**5**	**(59)**	**2,964**
Total securities[2]	**15,144**	**15,810**	**–**	**133**	**(951)**	**14,992**

(5) Additional information about bonds

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

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 455 million and securities provided as collateral to lenders, amounting to NIS 203 million.
(3) US government bonds.
(4) Included in shareholders' equity in "adjustments on presentation of bonds available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:

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

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

Note 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				
		Unrealized losses				Unrealized losses			
	Fair value[(1)]	0%-20%	20%-40%	Total	Fair value[(1)]	0%-20%	20%-40%	Over 40%	Total
									As of June 30, 2023 (unaudited)
Bonds available for sale									
of Government of Israel	3,158	32	–	32	3,051	330	142	25	497
of foreign governments[(2)]	153	–	–	–	1,015	8	–	–	8
Of financial institutions in Israel	99	7	–	7	335	36	–	–	36
Of foreign financial institutions	16	2	–	2	149	8	2	–	10
Asset-backed (ABS)	–	–	–	–	56	3	–	–	3
Of others in Israel	390	22	–	22	365	38	1	–	39
Of others overseas	53	–	–	–	92	6	6	–	12
Total bonds available for sale	**3,869**	**63**	**–**	**63**	**5,063**	**429**	**151**	**25**	**605**
									As of June 30, 2022 (unaudited)
Bonds available for sale									
of Government of Israel	2,950	190	–	190	2,125	286	21	–	307
of foreign governments[(2)]	4,324	16	–	16	48	4	–	–	4
Of financial institutions in Israel	387	28	–	28	–	–	–	–	–
Of foreign financial institutions	224	8	–	8	19	2	2	–	4
Asset-backed (ABS)	52	3		3	–	–	–	–	–
Of others in Israel	473	34	–	34	2	1	–	–	1
Of others overseas	75	1	–	1	32	3	–	–	3
Total bonds available for sale	**8,485**	**280**	**–**	**280**	**2,226**	**296**	**23**	**–**	**319**
									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 – Gains	Cumulative other comprehensive income – Losses	Fair value
	As of June 30, 2023 (unaudited)				
Asset-backed bonds (ABS)	56	59	–	(3)	56
Total asset-backed bonds available for sale	**56**	**59**	**–**	**(3)**	**56**
	As of June 30, 2022 (unaudited)				
Asset-backed bonds (ABS)	54	57	–	(3)	54
Total asset-backed bonds available for sale	**54**	**57**	**–**	**(3)**	**54**
	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

	June 30, 2023 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Recorded debt balance:						
reviewed on individual basis	77,947	–	318	78,265	30,977	109,242
reviewed on group basis	13,178	201,990	26,732	241,900	–	241,900
Total debts	**91,125**	**(2)201,990**	**27,050**	**320,165**	**30,977**	**351,142**
Of which:						
Non-accruing debts	969	1,735	67	2,771	–	2,771
Debts in arrears 90 days or longer	71	–	54	125	–	125
Other problematic debts	1,572	–	124	1,696	–	1,696
Total problematic debts	**2,612**	**1,735**	**245**	**4,592**	**–**	**4,592**
Balance of provision for credit losses with respect to debts:						
reviewed on individual basis	1,230	–	10	1,240	1	1,241
reviewed on group basis	480	960	560	2,000	–	2,000
Total provision for credit losses	**1,710**	**960**	**570**	**3,240**	**1**	**3,241**
Of which: With respect to non-accruing debts	**220**	**87**	**51**	**358**	**1**	**359**
Of which: With respect to other problematic debts	**363**	**–**	**64**	**427**	**–**	**427**

	June 30, 2022 (unaudited)					
Recorded debt balance:						
reviewed on individual basis	71,965	–	419	72,384	27,952	100,336
reviewed on group basis	12,774	190,323	25,390	228,487	–	228,487
Total debts	**84,739**	**(2)190,323**	**25,809**	**300,871**	**27,952**	**328,823**
Of which:						
Non-accruing debts	1,236	1,375	73	2,684	–	2,684
Debts in arrears 90 days or longer	108	–	35	143	–	143
Other problematic debts	577	–	107	684	–	684
Total problematic debts	**1,921**	**1,375**	**215**	**3,511**	**–**	**3,511**
Balance of provision for credit losses with respect to debts:						
reviewed on individual basis	1,075	–	10	1,085	1	1,086
reviewed on group basis	320	813	420	1,553	–	1,553
Total provision for credit losses	**1,395**	**813**	**430**	**2,638**	**1**	**2,639**
Of which: With respect to non-accruing debts	**292**	**106**	**41**	**439**	**1**	**440**
Of which: With respect to other problematic debts	**123**	**64**	**35**	**222**	**–**	**222**

(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 12,997 million (as of June 30, 2022 – NIS 12,306 million).

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				Banks, governments and bonds	Total
	Commercial	Housing	Individual – other	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

	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
	For the three months ended June 30, 2023 (unaudited)					
	Provision for credit losses					
	Loans to the public					
Balance of provision for credit losses at start of period	1,766	944	568	3,278	1	3,279
Expenses with respect to credit losses	168	21	58	247	–	247
Accounting write-offs[1]	(89)	–	(61)	(150)	–	(150)
Collection of debts written off for accounting purposes in previous years[1]	27	–	25	52	–	52
Net accounting write-offs	(62)	–	(36)	(98)	–	(98)
Balance of provision for credit losses at end of period	**1,872**	**965**	**590**	**3,427**	**1**	**3,428**
Of which: With respect to off balance sheet credit instruments	**162**	**5**	**20**	**187**	**–**	**187**
	For the three months ended June 30, 2022 (unaudited)					
Balance of provision for credit losses at start of period	1,551	787	415	2,753	1	2,754
Expenses with respect to credit losses	51	38	18	107	–	107
Accounting write-offs[1]	(55)	–	(38)	(93)	–	(93)
Collection of debts written off for accounting purposes in previous years[1]	25	–	22	47	–	47
Net accounting write-offs	(30)	–	(16)	(46)	–	(46)
Other[3]	14	–	26	40	–	40
Balance of provision for credit losses at end of period	**1,586**	**825**	**443**	**2,854**	**1**	**2,855**
Of which: With respect to off balance sheet credit instruments	**191**	**12**	**13**	**216**	**–**	**216**
	For the six months ended June 30, 2023 (unaudited)					
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	268	63	143	474	–	474
Accounting write-offs[1]	(142)	–	(115)	(257)	–	(257)
Collection of debts written off for accounting purposes in previous years[1]	56	–	50	106	–	106
Net accounting write-offs	(86)	–	(65)	(151)	–	(151)
Balance of provision for credit losses at end of period	**1,872**	**965**	**590**	**3,427**	**1**	**3,428**
Of which: With respect to off balance sheet credit instruments	**162**	**5**	**20**	**187**	**–**	**187**
	For the six months ended June 30, 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	102	52	32	186	–	186
Accounting write-offs[1]	(93)	–	(73)	(166)	–	(166)
Collection of debts written off for accounting purposes in previous years[1]	55	–	45	100	–	100
Net accounting write-offs	(38)	–	(28)	(66)	–	(66)
Other[3]	(9)	1	36	28	–	28
Balance of provision for credit losses at end of period	**1,586**	**825**	**443**	**2,854**	**1**	**2,855**
Of which: With respect to off balance sheet credit instruments	**191**	**12**	**13**	**216**	**–**	**216**

(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

	June 30		December 31
	2023	2022	2022
		(Unaudited)	(Audited)
In Israel			
On-call			
Non interest-bearing	76,715	(1)110,168	(1)91,961
Interest-bearing	30,329	(1)44,029	(1)39,737
Total on-call	**107,044**	**154,197**	**131,698**
Term deposits	228,494	168,132	204,829
Total deposits in Israel(2)	**335,538**	**322,329**	**336,527**
Outside of Israel			
On-call			
Non interest-bearing	438	610	409
Interest-bearing	136	10	66
Total on-call	**574**	**620**	**475**
Term deposits	9,079	4,935	7,512
Total deposits overseas	**9,653**	**5,555**	**7,987**
Total deposits from the public	**345,191**	**327,884**	**344,514**
(2) Includes:			
Deposits from individuals	**156,768**	**147,416**	**151,578**
Deposits from institutional investors	**75,829**	**66,998**	**75,938**
Deposits from corporations and others	**102,941**	**107,915**	**109,011**

b. Deposits from the public by size

	June 30		December 31
	2023	2022	2022
		(Unaudited)	(Audited)
Maximum deposit (NIS in millions)			
Up to 1	102,018	98,247	99,561
Over 1 to 10	89,184	83,530	86,771
Over 10 to 100	43,413	45,158	46,517
Over 100 to 500	34,077	36,060	35,348
Above 500	76,499	64,889	76,317
Total	**345,191**	**327,884**	**344,514**

(1) Reclassified.

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. Signing of special collective agreement with Mizrahi Tefahot Employees'

   On June 26, 2023, the Bank and Mizrahi Tefahot Employees' Union signed a special collective agreement for 2022-2026.

   Highlights of this agreement regarding wage and bonuses are as follows:
   - During the term of the agreement, each employee will receive a monthly wage increase of NIS 1,000,with an additional NIS 200 for branch employees, for the period as from January 1, 2022. These sums will be linked to the Consumer Price Index as from January 1, 2023.
   - Certain positions, such as section managers and authorized signatories, will receive a wage raise..
   - It was agreed that the base wage will increase by 3% in each of the years 2023 through 2024, and by 2% in the years 2025 through 2026. Social provisions will be updated so that the base wage for the pension provisions will be increased, and the base wage for provisions to the study fund will be identical to the pension provision basis.
   - The Bank will pay a bonus to employees hired prior to January 1, 2022 (who are still employed by the Bank) in the sum of two thirteenth month payment; employees hired on or after January 1, 2022 (who are still employed by the Bank) will be paid a bonus in the sum of one thirteenth month payment.

Various understandings were reached to enhance the Bank's managerial flexibility and to promote excellence, especially in consideration of current challenges, including changes in the labor market, innovation in the banking industry and to support achievement of the Bank's strategic targets. These include, *inter alia*:

- Increase in number of personal contracts at Bank headquarters.
- It will be possible to supplement salaries through personal supplements to headquarters employees, subject to certain conditions.
- Extension of the trial period for a specified number of employees, up to 5 years.
- The Bank will be able to relocate employees at its discretion. at the Bank's discretion.
- The Bank will be able to initiate employment terminations due to a lack of suitability for up to 70 employees classified as low-contributing employees during the period of the Agreement.Considering the up-coming relocation of Bank headquarters employees to the new Bank campus in Lod, the parties agreed that working conditions (including with respect to employee welfare) at the new campus will be determined by the Bank exclusively, after consulting the employee union. The employee union shall have no claims whatsoever with respect to relocation to the new campus.
- Full and complete industrial peace will be maintained throughout the term of the agreement.

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

Note 8 – Employee Rights – continued

Reported amounts (NIS in millions)

The Bank's financial statements as of December 31, 2022 and as of June 30, 2023 include the cumulative effect of the agreement through said dates, respectively. The Bank assumes that this agreement should not materially impact the Bank's financial statements in 2023 nor in subsequent years. Payroll expenses at the Bank for all of 2023 should include NIS 85 million in 2023 with respect to the agreement, and should increase by a further NIS 30-45 million in each year between 2024-2026.

6. 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 June 30		For the six months ended June 30		For the year ended December 31
	2023	2022	2023	2022	2022
		(Unaudited)		(Unaudited)	(Audited)
Under payroll and associated expenses					
Cost of service[(1)]	13	20	30	41	83
Under other expenses					
Cost of interest[(2)]	17	18	37	34	70
Expected return on plan assets[(3)]	(2)	(5)	(7)	(9)	(20)
Deduction of non-allowed amounts:					
Net actuarial loss[(4)]	10	16	18	35	62
Total under other expenses	25	29	49	60	112
Total benefit cost, net	**38**	**49**	**79**	**101**	**195**
Total expense with respect to defined-contribution pension	46	51	90	100	190
Total expenses recognized in profit and loss	**84**	**100**	**169**	**201**	**385**

	Forecast	Actual deposits				
	For[(5)]	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2023	2023	2022	2023	2022	2022
			(Unaudited)		(Unaudited)	(Audited)
Deposits	3	2	3	4	7	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 June 30		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)]	26,908	23,567	25,072
Tier I capital[(1)]	26,908	23,567	25,072
Tier II capital	8,482	7,988	8,015
Total capital	**35,390**	**31,555**	**33,087**
b. Weighted risk asset balances			
Credit risk	242,280	219,449	234,383
Market risks	1,710	1,843	1,301
Operational Risk	18,919	14,491	16,567
Total weighted risk asset balances	**262,909**	**235,783**	**252,251**
c. Ratio of capital to risk components			
			In %
Ratio of Tier I equity to risk components	10.23	10.00	9.94
Ratio of Tier I capital to risk components	10.23	10.00	9.94
Ratio of total capital to risk components	13.46	13.38	13.12
Minimum Tier I equity ratio required by Supervisor of Banks[(2)]	9.60	9.62	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	10.91	9.87	10.51
Ratio of Tier I capital to risk components	10.91	9.87	10.51
Ratio of total capital to risk components	13.81	13.42	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.

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 June 30	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	26,990	23,183	24,868
Differences between shareholders' equity and Tier I equity	(613)	(491)	(543)
Tier I equity before regulatory adjustments and deductions	**26,377**	**22,692**	**24,325**
Supervisory adjustments and deductions:			
Goodwill and intangible assets	(137)	(157)	(147)
Deferred tax assets	–	–	–
Supervisory adjustments and other deductions(1)	484	742	612
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan before adjustments for expected credit losses – Tier I equity	**347**	**585**	**465**
Total adjustments with respect to the streamlining program	7	23	15
Total adjustments for expected credit losses	177	267	267
Total Tier I equity after supervisory adjustments and deductions	**26,908**	**23,567**	**25,072**
b. Tier II capital			
Tier II capital: Instruments, before deductions	5,591	5,803	5,437
Tier II capital: Provisions, before deductions	3,029	2,392	2,785
Total Tier II capital, before deductions	**8,620**	**8,195**	**8,222**
Deductions:			
Deductions – Total adjustments for expected credit losses	(138)	(207)	(207)
Total Tier II capital	8,482	7,988	8,015
Total capital	**35,390**	**31,555**	**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 June 30	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	10.16	9.85	9.78
Effect of adjustments with respect to the streamlining plan	–	0.02	–
Effect of adjustments for expected credit losses	0.07	0.13	0.12
Effect of adjustments with respect to loans subject to increased risk for land purchase	–	–	0.04
Ratio of Tier I equity to risk components	10.23	10.00	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 June 30	As of December 31
	2023	**2022**	**2022**
		(Unaudited)	**(Audited)**
1. Consolidated data			
Tier I capital[1]	26,908	23,567	25,072
Total exposure	469,461	450,369	463,010
	In %		
Leverage ratio	5.73	5.23	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	6.35	5.58	6.08
Minimum leverage ratio required by the Supervisor of Banks[3]	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.

(3) As from May 2023, the Bank of Israel rescinded the relief provided to Bank Yahav, for a minimum leverage ratio of 4.7%

C. Liquidity coverage ratio

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

		As of June 30	As of December 31
	2023	**2022**	**2022**
		(Unaudited)	**(Audited)**
		In %	
1. Consolidated data			
Liquidity coverage ratio[1]	128	120	118
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
2. Bank data			
Liquidity coverage ratio[1]	129	120	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]	244	200	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.

	As of June 30		As of December 31
	2023	2022	2022
	(Unaudited)		(Audited)
			In %
(1) On consolidated data			
Net stable funding ratio	115	114	115
The minimum net stable funding ratio required by the Supervisor of Banks	100	100	100
(2) Significant subsidiaries			
Bank Yahav			
Net stable funding ratio	165	176	156
The minimum net stable funding ratio required by the Supervisor of Banks	100	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. 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").

Note 9 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

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).

F. 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 June 30, 2023, there was no material impact on the capital adequacy ratios.

G. 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.

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

I. 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

		June 30	December 31
	2023	2022	2022
		(Unaudited)	(Audited)
1. Computerization and software service contracts	356	396	313
2. Acquisition and renovation of buildings	175	21	221

3. Credit sales operations

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

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2023	2022	2023	2022	2022
		(Unaudited)		(Unaudited)	(Audited)
Carrying amount of credit sold	–	3	25	3	1,903
Total consideration	–	3	25	3	1,943
Service obligation – 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. Evidentiary hearings in this case were held in March-April 2023. As recommended by the Court, the parties are negotiating in an attempt to reach agreement with regard to the mediation proceeding.

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

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

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 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, other banks and multiple insurance companies, alleging unlawful over-charging of insurance premium for superfluous insurance policies issued to the building owner, even though at the time of their issue, the same or another insurance company already had issued insurance policies covering the same building for the same period. The plaintiffs set the total damage, jointly and severally, at NIS 280 million. On February 19, 2023, the motion to withdraw by filed the plaintiff was approved.

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

Hearing of this case is consolidated with 3 other claims filed in the same matter against 3 other banks. At a hearing of this case held in July 2021 the Court stated its intention to ask for the Supervisor of Banks' position, after ruling on various motions filed by the banks with respect to plaintiffs' responses to the banks' responses. A ruling on these motions is still pending.

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.

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, the Supervisor of Banks filed their position on this matter, whereby an issuer bank may charge a direct channel fee for withdrawal from a non-bank ATM, and in this regard, general disclosure on the ATM screen that a further fee would be charged by the Bank is sufficient.

Note 10 – Contingent Liabilities and Special Commitments – continued

H) In April 2022, the Bank received a motion for approval of class action status of no stated amount, concerning double charging of commission, allegedly unlawfully, in an exchange transaction of two foreign currencies, and absence of proper disclosure about these charges in the conversion differences.

As for the charging of a transaction commission, the plaintiff alleged that for conversion between two foreign currencies the Bank charges two transaction commissions (a sale transaction - conversion from one currency to NIS, and a buy transaction - conversion from NIS to the other currency); As for the charging of conversion differences, the plaintiff alleged that the Bank does not disclose to the customer in advance, neither in the price list nor in the booklet "General terms and conditions for account management", the exact charging of conversion differences that would apply to the transaction.

On December 2, 2022, a verdict was handed down, rejecting out of hand the motion for approval of class action status. On January 18, 2023, the plaintiff appealed this verdict to the Supreme Court. A hearing of the appeal by the Supreme Court is scheduled for November 13, 2023.

I) In September 2022, the Bank received a motion for approval of class action status, with no estimated amount. The motion concerns allegations regarding the Bank website, which the plaintiff alleges is in breach of provisions of Section 5(c) of the Banking Law (Customer service), 1981. Allegedly, the Bank presents on its marketing website diverse loans for different purposes, and encourages Bank customers to take out loans, without displaying the warning allegedly mandated by Section 5(c) of the Banking Law, whereby "Failure to make loan repayments may result in arrears interest charges and in debt collection proceedings".

On March 26, 2023, the Court handed down a verdict approving the parties motion for the plaintiff to withdraw the motion for approval of class action status.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 10 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 79 million.

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. On August 9, 2023, the Bank received a claim and motion for approval of class action status, of unspecified amount, filed against the Bank and other banks. The motion concerns the requirement to provide a building insurance policy incidental to a mortgage, to be pledged in favor of the Bank, even when the property value net of the relevant land value exceeds the requested loan amount or the outstanding loan balance, allegedly in contravention of provisions of Proper Conduct of Banking Business Directive 451, whereby the Bank may not require the borrower to obtain such insurance. It was further alleged that the defendant banks do not inform the borrowers, during the loan period, of the option available to them not to insure the property under such circumstances, with respect to the outstanding loan balance.

B. In August 2023, the Bank received a claim and motion for class action status, of unspecified amount. The motion concerns terms of interest and deposit types used as temporary collateral for mortgage transition from one land property to an alternative land property.
Allegedly, the Bank makes its consent to the customer request to transition the mortgage contingent on receiving liquid collateral, and in case of a deposit as such collateral, the investment options offered to the customer for such deposit are inferior by comparison to other investment options, and in particular – by comparison to other deposits offered to all Bank customers, and such action by the Bank results in excess profit for the Bank. It is further alleged that during the term of such deposit, the customer is required to maintain a valid life insurance policy. This is allegedly in contravention of the mortgage agreement, and in breach of multiple duties applicable to the Bank pursuant to statutes.

Note 10 – Contingent Liabilities and Special Commitments – continued

C. In July 2023, the Bank received a claim and motion for approval of class action status, filed against the Bank and other banks. The claim alleges misleading behavior and failure to provide disclosure, when making a deposit online or in the app, of the interest rate offered and paid to other bank customers for the same deposits, and of the option to obtain better interest. This involves allegedly unlawful action tantamount to misleading behavior, exploitative and lacking good faith, as well as unlawful enrichment. The total damage claimed for all banks amounts to NIS 984 million.

D. In June 2023, the Bank received a motion for class action status brought against the Bank and other banks, claiming damages in excess of NIS 1 billion, for non-payment of interest for credit balances in current accounts. The motion alleges that the Bank does not pay interest for credit balances in current accounts held with the Bank, by way of credit interest or by automated deposit of credit balances in the account to an interest-bearing deposit, and that the Bank fails to inform customers of the appropriate options in such circumstances, in breach of various statutory provisions and with unlawful enrichment.
The Bank should file its response to the motion for approval by October 29, 2023. A pre-trial hearing is scheduled for December 31, 2023.

E. In June 2023, the Bank received a claim and motion for approval of class action status, filed against the Bank and other banks, alleging over-charging of debit interest linked to the Prime lending rate. The claim alleges that the Bank increases the Prime lending rate used to determine the debit interest rate for debit balances in current accounts and in loans, whenever the Bank of Israel changes its interest rate, and by exactly the same change, without exercising judgment and without paying due consideration to changes to the cost of credit sources, thereby increasing the Bank's earnings by allegedly using, other than in good faith, unfair sections of uniform banking contracts, as well as unlawful enrichment.
The total estimated damage for all defendants amounts to NIS 5.8 billion.
The Bank has yet to file its response. A preliminary hearing of this case is scheduled for December 21, 2023.

F. In May 2023, the Bank received a claim and motion for class action status, of unspecified amount, with respect to setting the interest rate in the fixed interest track of residential mortgages, carried out in parts. The motion alleges that the Bank should set an annual interest rate based on the basic interest rate plus the "additional rate" which, according to the plaintiff, should be fixed; However, allegedly the Bank calculates the additional interest based on the interest rate upon signing the loan agreement, but based on the basic interest on later dates, in contravention of the loan agreement and of provisions of Proper Conduct of Banking Business Directive 421 regarding "Decrease or increase in interest rates".
The Bank should file its response to the motion for approval by October 10, 2023.

G. In November 2022, the Bank received a motion for approval of class action lawsuit, of unspecified amount, concerning revision of interest rates in conformity with agreements for residential mortgages in the variable interest track based on bonds as an anchor (yield of Government bonds), alleging that this creates an unfair advantage for the Bank at the expense of borrowers, and that the condition stipulated in such agreements, whereby the change in anchor would only apply "on condition that the sum of these components shall not be less than 0%" constitutes, allegedly, a discriminatory condition in a uniform contract, as defined in Section 2 of the Uniform Contract Law, 1982.
The Bank's response is due by August 31, 2023. A preliminary hearing of this case is scheduled for December 20, 2023.

H. 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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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.
The parties filed a motion for agreed withdrawal with the Court, and on July 30, 2023, the Court handed down its ruling denying the motion.

B. In December 2016, a motion pursuant to Section 198a of the Corporate Law, 1999, was filed with the Tel Aviv District Court for discovery and review of Union Bank documents (hereinafter: "Union Bank"), whereby the Court was asked to instruct Union Bank to divulge documents with regard to credit extended by Union Bank to a major borrower (who is in insolvency proceedings) and to others whose debt is personally guaranteed by the borrower (hereinafter: "the Motion for Discovery"). On August 6, 2017 the Court approved a litigation agreement whereby proceedings in this case would be delayed, so as to allow the independent claim committee, which the Union Bank Board of Directors resolved to establish, to discuss this matter and for the Board of Directors to discuss the committee's recommendations. After the Committee has concluded its work and after the Union Bank Board of Directors discussed and adopted its recommendations, the parties conducted a mediation proceeding which was unsuccessful. Therefore, on September 25, 2019, the plaintiff filed a motion for approval of a derivative lawsuit (hereinafter: "the motion") against 20 individual defendants who, allegedly, serve or have served as Board members of Union Bank. The motion concerns, allegedly, loans extended to the major borrower in 2004-2008, with no collateral or with collateral that only partially covers his debt, 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.
The parties negotiated with attorneys of the insurers in the Board member and officer liability insurance policy; On April 14, 2022, the settlement agreement was submitted for Court approval, other than in agreement with the plaintiff.
On July 18, 2022, the Attorney General filed their position, whereby the motion for approval of the settlement agreement should be denied, due to the fact that it was not reached in agreement with the plaintiff.
On March 16, 2023, Bank Mizrahi Tefahot, after completion of the Union Bank merger there with and there into on December 29, 2022, filed a motion seeking a ruling on the format for filing the motion for approval of the settlement agreement.
On June 7, 2023, a hearing took place at which the parties and representatives of the Attorney General and of the insurers presented their position, after which the Court suggested that the parties negotiate this matter. Therefore, the parties are in negotiations for a settlement agreement.

C. On August 13, 2023, the Bank received a motion filed with the Tel Aviv-Yafo District Court by two individual shareholders of the Bank, seeking a document discovery order pursuant to Section 198a of the Companies Law, 1999, filed against the Bank and its Board members and the Bank President & CEO ("Respondents" and "Motion", respectively), to instruct the Bank and/or any of the other Respondents to disclose to the applicants various documents with respect to obtaining a mortgage. The Motion alleges that the applicants have prima facie evidence whereby the Bank allegedly aids its customers from the Jewish Orthodox sector to bypass the Bank of Israel directives and mandatory reporting pursuant to the Anti Money Laundering Law, and that this indicates a failure in conduct of the Bank, its officers and employees thereof, which provides justification for filing a derivative lawsuit against Bank officers and employees, with respect to damage caused to the Bank due to their deeds or omissions.

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 June 30, 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	2,817	525	75	379	3,796
Guarantees to home buyers	9,929	6,006	16	292	16,243
Guarantees and other commitments	5,524	1,694	277	5,282	12,777
Commitments to issue guarantees	3,465	5,572	418	–	9,455
Total guarantees	**21,735**	**13,797**	**786**	**5,953**	**42,271**

	As of June 30, 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	2,347	625	74	156	3,202
Guarantees to home buyers	13,009	4,945	354	1,277	19,585
Guarantees and other commitments	5,633	1,389	421	4,721	12,164
Commitments to issue guarantees	3,034	5,351	625	–	9,010
Total guarantees	**24,024**	**12,310**	**1,474**	**6,154**	**43,962**

	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

	June 30, 2023 (unaudited)			June 30, 2022 (unaudited)		
	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	383	2,300	2,683	839	1,840	2,679
Options written	–	–	–	–	–	–
Options purchased	–	–	–	–	–	–
Swaps[1]	39,671	53,943	93,614	30,814	31,014	61,828
Total[2]	**40,054**	**56,243**	**96,297**	**31,653**	**32,854**	**64,507**
Of which: Hedging derivatives[3]	**4,750**	**–**	**4,750**	**3,467**	**–**	**3,467**
Currency contracts						
Forward and futures contracts[4] [6]	46,288	139,208	185,496	70,137	92,611	162,748
Options written	–	16,386	16,386	–	15,846	15,846
Options purchased	–	16,586	16,586	–	15,394	15,394
Swaps	1,860	1,031	2,891	1,240	1,025	2,265
Total	**48,148**	**173,211**	**221,359**	**71,377**	**124,876**	**196,253**
Of which: Hedging derivatives[3]	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Forward and futures contracts	–	30,335	30,335	–	21,611	21,611
Options written	118	7,112	7,230	96	14,121	14,217
Options purchased[5]	–	7,115	7,115	15	13,780	13,795
Swaps	–	2,376	2,376	–	1,111	1,111
Total	**118**	**46,938**	**47,056**	**111**	**50,623**	**50,734**
Commodities and other contracts						
Forward and futures contracts	–	182	182	–	4	4
Options written	–	–	–	–	7	7
Options purchased	–	–	–	–	7	7
Total	**–**	**182**	**182**	**–**	**18**	**18**
Credit contracts						
Bank is guarantor	–	–	–	280	–	280
Bank is beneficiary	46	–	46	73	–	73
Total	**46**	**–**	**46**	**353**	**–**	**353**
Total stated amount	**88,366**	**276,574**	**364,940**	**103,494**	**208,371**	**311,865**

(1) Includes swaps where the banking corporation pays a fixed interest rate amounting to NIS 52,181 million (as of June 30, 2022: NIS 32,598 million).
(2) Of which: NIS/CPI swaps amounting to NIS 5,991 million (as of June 30, 2022: NIS 7,032 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 swaps amounting to NIS 8,055 million (as of June 30, 2022: NIS 7,195 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 7,115 million (as of June 30, 2022: NIS 13,772 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

	As of December 31, 2022 (audited)		
	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 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 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 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) Include swaps 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

						June 30, 2023 (unaudited)
	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	1,535	784	2,319	1,246	684	1,930
Of which: Hedging derivatives	242	–	242	60	–	60
Currency contracts[(1)]	280	2,890	3,170	21	2,534	2,555
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	342	342	5	332	337
Commodities and other contracts	10	–	10	–	10	10
Credit contracts	–	–	–	6	–	6
Total assets / liabilities with respect to derivatives, gross[(2)]	**1,825**	**4,016**	**5,841**	**1,278**	**3,560**	**4,838**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**1,825**	**4,016**	**5,841**	**1,278**	**3,560**	**4,838**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	24	1,139	1,163	17	762	779

						June 30, 2022 (unaudited)
	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	942	468	1,410	876	447	1,323
Of which: Hedging derivatives	125	–	125	86	–	86
Currency contracts[(1)]	324	5,033	5,357	125	4,514	4,639
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	320	320	9	289	298
Commodities and other contracts	–	–	–	–	–	–
Credit contracts	2	–	2	13	–	13
Total assets / liabilities with respect to derivatives, gross[(2)]	**1,268**	**5,821**	**7,089**	**1,023**	**5,250**	**6,273**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**1,268**	**5,821**	**7,089**	**1,023**	**5,250**	**6,273**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	92	1,432	1,524	97	843	940

(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 10 million (as of June 30, 2022: NIS 9 million). Gross fair value of liabilities with respect to embedded derivative instruments amounting to NIS 5 million (as of June 30, 2022: NIS 9 million).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A. Activity on consolidated basis – continued

	As of December 31, 2022 (audited)					
	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 June 30		For the six months ended June 30		For the year ended December 31
	2023	2022	2023	2022	2022
Interest contracts					
Hedged items	(37)	(56)	(9)	(161)	(241)
Hedging derivatives	37	57	12	158	247

	Balance as of June 30, 2023		Balance as of June 30, 2022		Balance as of December 31, 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	1,569	34	1,647	6	1,647	43

2. Cash flows hedges(2)

For the three months ended June 30, 2023		For the three months ended June 30, 2022	
Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)
3	(11)	11	(32)

For the six months ended June 30, 2023		For the six months ended June 30, 2022		For the year ended December 31, 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)
3	(19)	4	(51)	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

	June 30, 2023 (unaudited)						
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Institutional investors	Others	Total
Carrying amount of assets with respect to derivative instruments	**37**	**2,618**	**280**	**2**	**2,167**	**737**	**5,841**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	–	(2,241)	–	–	(568)	–	(1)(2,809)
Mitigation of credit risk with respect to cash collateral received	–	(29)	–	–	(944)	(54)	(1,027)
Net amount of assets with respect to derivative instruments	**37**	**348**	**280**	**2**	**655**	**683**	**2,005**
Net off-balance sheet credit risk with respect to derivative instruments(2)	96	717	1,335	11	2,134	361	4,654
Total credit risk on derivative instruments	**133**	**1,065**	**1,615**	**13**	**2,789**	**1,044**	**6,659**
Carrying amount of liabilities with respect to derivative instruments	**36**	**3,142**	**280**	**101**	**793**	**486**	**4,838**
Gross amounts not offset in the balance sheet:							
Financial instruments	–	(2,241)	–	–	(568)	–	(2,809)
Pledged cash collateral	–	(901)	–	(69)	(204)	–	(1,174)
Net amount of liabilities with respect to derivative instruments	**36**	**–**	**280**	**32**	**21**	**486**	**855**

	June 30, 2022 (unaudited)						
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Institutional investors	Others	Total
Carrying amount of assets with respect to derivative instruments	**133**	**2,347**	**14**	**–**	**3,562**	**1,033**	**7,089**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	–	(2,025)	–	–	(488)	(720)	(1)(3,233)
Mitigation of credit risk with respect to cash collateral received	–	(178)	–	–	(495)	(5)	(678)
Net amount of assets with respect to derivative instruments	**133**	**144**	**14**	**–**	**2,579**	**308**	**3,178**
Net off-balance sheet credit risk with respect to derivative instruments(2)	198	991	333	–	977	274	2,773
Total credit risk on derivative instruments	**331**	**1,135**	**347**	**–**	**3,556**	**582**	**5,951**
Carrying amount of liabilities with respect to derivative instruments	**125**	**4,085**	**14**	**31**	**841**	**1,177**	**6,273**
Gross amounts not offset in the balance sheet:							
Financial instruments	–	(2,025)	–	–	(488)	(720)	(3,233)
Pledged cash collateral	–	(1,873)	–	(26)	(316)	–	(2,215)
Net amount of liabilities with respect to derivative instruments	**125**	**187**	**14**	**5**	**37**	**457**	**825**

(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

							As of December 31, 2022 (audited)
	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)	(2,452)[(1)]
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 three-month period ended June 30, 2023, the Bank recognized revenues from decrease in provision for credit losses amounting to NIS 3 million. In the six-month period ended June 30, 2023, the Bank recognized revenues from decrease in provision for credit losses amounting to NIS 13 million (in the three-month period ended June 30, 2022, the Bank recognized expenses from increase in provision for credit losses amounting to NIS 10 million. In the six-month period ended June 30, 2022, the Bank recognized revenues from decrease in provision for credit losses amounting to NIS 12 million).

D. Maturity dates – stated amounts: Balances at end of period – Consolidated

					June 30, 2023 (unaudited)
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	1,162	1,441	2,497	891	5,991
Other	26,721	19,891	28,401	15,293	90,306
Currency contracts	148,330	68,415	4,455	159	221,359
Contracts for shares	40,764	6,161	131	–	47,056
Commodities and other contracts	26	178	24	–	228
Total	**217,003**	**96,086**	**35,508**	**16,343**	**364,940**

					June 30, 2022 (unaudited)
Total	**177,362**	**93,241**	**26,195**	**15,067**	**311,865**

					As of December 31, 2022 (audited)
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 six months ended June 30, 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	5,699	1,287	28	6,986	3	1,404
Interest expenses from externals	–	1,764	–	1,764	411	609
Interest revenues, net from externals	5,699	(477)	28	5,222	(408)	795
Interest revenues, net – inter-segment	(4,348)	2,343	(4)	(2,005)	578	516
Total interest revenues, net	**1,351**	**1,866**	**24**	**3,217**	**170**	**1,311**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	75	353	107	428	9	287
Total non-interest revenues	**75**	**353**	**107**	**428**	**9**	**287**
Total revenues	**1,426**	**2,219**	**131**	**3,645**	**179**	**1,598**
Expenses with respect to credit losses	63	142	10	205	1	207
Operating and other expenses to externals	503	1,211	37	1,714	10	622
Operating and other expenses – inter-segment	–	(2)	–	(2)	(1)	(4)
Total operating and other expenses	**503**	**1,209**	**37**	**1,712**	**9**	**618**
Pre-tax profit (loss)	860	868	84	1,728	169	773
Provision for taxes on profit	299	302	29	601	59	269
After-tax profit	**561**	**566**	**55**	**1,127**	**110**	**504**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	561	566	55	1,127	110	504
Net profit attributed to non-controlling interests	–	(85)	(1)	(85)	–	(7)
Net profit attributable to shareholders of the banking corporation	**561**	**481**	**54**	**1,042**	**110**	**497**
Average balance of assets	200,607	26,938	4,518	227,545	133	34,550
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	199,566	26,861	4,518	226,427	133	34,502
Balance of loans to the public at end of reported period	(3)201,874	28,065	4,846	229,939	134	35,423
Balance of non-accruing debts	1,735	67	1	1,802	–	704
Balance of debt in arrears 90 days or longer	–	54	–	54	–	70
Average balance of liabilities	325	129,690	–	130,015	26,060	55,654
Of which: Average balance of deposits from the public	–	127,600	–	127,600	26,060	55,363
Balance of deposits from the public at end of reported period	–	129,413	–	129,413	27,355	56,223
Average balance of risk assets(1)	118,587	21,804	4,157	140,391	62	33,156
Balance of risk assets at end of reported period(1)	120,532	21,979	4,130	142,511	73	33,370
Average balance of assets under management(2)	10,223	57,341	–	67,564	4,041	43,149
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,177	554	24	1,731	–	680
Margin from activities of receiving deposits	–	1,286	–	1,286	170	574
Other	174	26	–	200	–	57
Total interest revenues, net	**1,351**	**1,866**	**24**	**3,217**	**170**	**1,311**

(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 13,068.

						Operations overseas	Total
	Medium businesses	**Large businesses**	**Institutional investors**	**Financial management segment**	**Total activity in Israel**	**Total – operations overseas**	
-							
	442	1,032	23	1,497	11,387	712	12,099
	183	713	1,431	479	5,590	182	5,772
	259	319	(1,408)	1,018	5,797	530	6,327
	74	262	1,514	(606)	333	(333)	–
	333	**581**	**106**	**412**	**6,130**	**197**	**6,327**
	–	–	–	337	337	–	337
	48	108	27	238	1,145	12	1,157
	48	**108**	**27**	**575**	**1,482**	**12**	**1,494**
	381	**689**	**133**	**987**	**7,612**	**209**	**7,821**
	6	30	–	–	449	25	474
	107	167	85	204	2,909	49	2,958
	–	3	1	3	–	–	–
	107	**170**	**86**	**207**	**2,909**	**49**	**2,958**
	268	489	47	780	4,254	135	4,389
	93	170	16	271	1,479	47	1,526
	175	**319**	**31**	**509**	**2,775**	**88**	**2,863**
	–	–	–	1	1	–	1
	175	319	31	510	2,776	88	2,864
	–	–	–	(7)	(99)	–	(99)
	175	**319**	**31**	**503**	**2,677**	**88**	**2,765**
	12,201	32,262	1,062	99,332	407,085	24,171	431,256
	–	–	–	172	172	–	172
	12,201	32,262	852	–	306,377	7,057	313,434
	12,581	31,932	2,596	–	312,605	7,560	320,165
	184	69	–	–	2,759	12	2,771
	1	–	–	–	125	–	125
	12,635	40,853	67,740	59,131	392,088	10,713	402,801
	12,635	38,440	66,875	–	326,973	8,441	335,414
	11,980	34,738	75,829	–	335,538	9,653	345,191
	14,516	42,654	2,287	15,275	248,341	9,004	257,345
	14,688	42,999	2,307	17,301	253,249	9,660	262,909
	10,045	29,983	371,195	1,915	527,892	–	527,892
-							
	206	380	10	–	3,007	123	3,130
	104	139	93	–	2,366	11	2,377
	23	62	3	412	757	63	820
	333	**581**	**106**	**412**	**6,130**	**197**	**6,327**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the six months ended June 30, 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	4,614	778	20	5,392	1	824
Interest expenses from externals	–	540	–	540	158	156
Interest revenues, net from externals	4,614	238	20	4,852	(157)	668
Interest revenues, net – inter-segment	(3,402)	558	(3)	(2,844)	210	99
Total interest revenues, net	**1,212**	**796**	**17**	**2,008**	**53**	**767**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	67	373	88	440	14	284
Total non-interest revenues	**67**	**373**	**88**	**440**	**14**	**284**
Total revenues	**1,279**	**1,169**	**105**	**2,448**	**67**	**1,051**
Expenses with respect to credit losses	52	32	–	84	–	25
Operating and other expenses to externals	443	1,164	38	1,607	9	599
Operating and other expenses – inter-segment	–	(42)	(4)	(42)	2	(24)
Total operating and other expenses	**443**	**1,122**	**34**	**1,565**	**11**	**575**
Pre-tax profit (loss)	784	15	71	799	56	451
Provision (reduced provision) for taxes on profit	263	5	24	268	19	151
After-tax profit (loss)	**521**	**10**	**47**	**531**	**37**	**300**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	521	10	47	531	37	300
Net profit attributed to non-controlling interests	–	(32)	(2)	(32)	–	(4)
Net profit (loss) attributable to shareholders of the banking corporation	**521**	**(22)**	**45**	**499**	**37**	**296**
Average balance of assets	182,569	25,263	4,198	207,832	123	32,219
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	182,569	25,263	4,198	207,832	123	32,219
Balance of loans to the public at end of reported period	(3)190,179	26,854	4,643	217,033	151	34,493
Balance of non-accruing debts	1,375	73	–	1,448	–	626
Balance of debt in arrears 90 days or longer	–	35	–	35	–	70
Average balance of liabilities	–	124,391	4,198	124,391	22,273	53,245
Of which: Average balance of deposits from the public	–	120,193	–	120,193	22,273	53,245
Balance of deposits from the public at end of reported period	–	123,387	–	123,387	24,029	55,875
Average balance of risk assets(1)	104,119	23,929	4,230	128,048	71	29,092
Balance of risk assets at end of reported period(1)	106,794	24,631	4,193	131,425	70	31,342
Average balance of assets under management(2)	7,671	58,371	–	66,042	5,530	39,761
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,160	494	17	1,654	1	640
Margin from activities of receiving deposits	–	297	–	297	50	105
Other	52	5	–	57	2	22
Total interest revenues, net	**1,212**	**796**	**17**	**2,008**	**53**	**767**

(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 14,797.

						Operations overseas	Total
	Medium businesses	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Total – operations overseas	
-							
	235	382	26	94	6,954	151	7,105
	48	167	327	1,102	2,498	10	2,508
	187	215	(301)	(1,008)	4,456	141	4,597
	16	126	385	2,024	16	(16)	–
	203	**341**	**84**	**1,016**	**4,472**	**125**	**4,597**
	(1)	1	–	279	279	14	293
	51	100	26	594	1,509	17	1,526
	50	**101**	**26**	**873**	**1,788**	**31**	**1,819**
	253	**442**	**110**	**1,889**	**6,260**	**156**	**6,416**
	25	36	(1)	–	169	17	186
	104	152	70	253	2,794	36	2,830
	19	27	16	2	–	–	–
	123	**179**	**86**	**255**	**2,794**	**36**	**2,830**
	105	227	25	1,634	3,297	103	3,400
	35	76	8	548	1,105	36	1,141
	70	**151**	**17**	**1,086**	**2,192**	**67**	**2,259**
	–	–	–	2	2	–	2
	70	151	17	1,088	2,194	67	2,261
	–	–	–	(18)	(54)	–	(54)
	70	**151**	**17**	**1,070**	**2,140**	**67**	**2,207**
	11,036	25,166	2,007	110,487	388,870	16,331	405,201
	–	–	–	109	109	–	109
	11,036	25,166	2,007	–	278,383	4,669	283,052
	11,476	28,460	3,321	–	294,934	5,937	300,871
	337	184	–	–	2,595	89	2,684
	–	38	–	–	143	–	143
	14,438	36,372	61,646	64,429	376,794	14,949	391,743
	14,438	36,372	61,646	–	308,167	4,766	312,933
	13,908	38,132	66,998	–	322,329	5,555	327,884
	13,207	35,383	1,954	13,041	220,796	6,136	226,932
	13,102	36,639	2,913	13,036	228,527	7,256	235,783
	6,544	31,639	381,165	3,142	533,823	–	533,823
-							
	172	276	14	–	2,757	99	2,856
	26	46	59	–	583	4	587
	5	19	11	1,016	1,132	22	1,154
	203	**341**	**84**	**1,016**	**4,472**	**125**	**4,597**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended June 30, 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	3,022	867	11	3,889	(4)	705
Interest expenses from externals	–	1,208	–	1,208	226	341
Interest revenues, net from externals	3,022	(341)	11	2,681	(230)	364
Interest revenues, net – inter-segment	(2,339)	1,332	(1)	(1,007)	317	310
Total interest revenues, net	**683**	**991**	**10**	**1,674**	**87**	**674**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	40	178	54	218	4	142
Total non-interest revenues	**40**	**178**	**54**	**218**	**4**	**142**
Total revenues	**723**	**1,169**	**64**	**1,892**	**91**	**816**
Expenses with respect to credit losses	21	57	5	78	1	127
Operating and other expenses to externals	258	621	19	879	5	323
Operating and other expenses – inter-segment	–	(1)	–	(1)	(1)	(2)
Total operating and other expenses	**258**	**620**	**19**	**878**	**4**	**321**
Pre-tax profit (loss)	444	492	40	936	86	368
Provision (reduced provision) for taxes on profit	155	172	14	327	30	129
After-tax profit	**289**	**320**	**26**	**609**	**56**	**239**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	289	320	26	609	56	239
Net profit attributed to non-controlling interests	–	(44)	–	(44)	–	(3)
Net profit (loss) attributable to shareholders of the banking corporation	**289**	**276**	**26**	**565**	**56**	**236**
Average balance of assets	201,943	26,999	4,518	228,942	137	34,349
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	200,810	26,918	4,518	227,728	137	34,307
Balance of loans to the public at end of reported period	(3)201,874	28,065	4,846	229,939	134	35,423
Balance of non-accruing debts	1,735	67	1	1,802	–	704
Balance of debt in arrears 90 days or longer	–	54	–	54	–	70
Average balance of liabilities	327	130,794	–	131,121	26,423	55,367
Of which: Average balance of deposits from the public	–	128,705	–	128,705	26,423	55,065
Balance of deposits from the public at end of reported period	–	129,413	–	129,413	27,355	56,223
Average balance of risk assets(1)	119,452	21,945	4,129	141,397	64	33,219
Balance of risk assets at end of reported period(1)	120,532	21,979	4,130	142,511	73	33,370
Average balance of assets under management(2)	10,139	72,882	–	83,021	4,507	45,327
Breakdown of interest revenues, net:						
Margin from credit granting operations	589	281	10	870	–	349
Margin from activities of receiving deposits	–	695	–	695	87	296
Other	94	15	–	109	–	29
Total interest revenues, net	**683**	**991**	**10**	**1,674**	**87**	**674**

(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 13,068.

						Operations overseas	Total
	Medium businesses	**Large businesses**	**Institutional investors**	**Financial management segment**	**Total activity in Israel**	**Total – operations overseas**	
	186	483	(109)	825	5,975	364	6,339
	91	385	753	56	3,060	98	3,158
	95	98	(862)	769	2,915	266	3,181
	59	198	910	(624)	163	(163)	–
	154	**296**	**48**	**145**	**3,078**	**103**	**3,181**
	–	–	–	250	250	–	250
	21	62	13	98	558	6	564
	21	**62**	**13**	**348**	**808**	**6**	**814**
	175	**358**	**61**	**493**	**3,886**	**109**	**3,995**
	18	10	–	–	234	13	247
	55	86	44	105	1,497	24	1,521
	–	2	1	1	–	–	–
	55	**88**	**45**	**106**	**1,497**	**24**	**1,521**
	102	260	16	387	2,155	72	2,227
	36	91	5	136	754	25	779
	66	**169**	**11**	**251**	**1,401**	**47**	**1,448**
	–	–	–	–	–	–	–
	66	169	11	251	1,401	47	1,448
	–	–	–	(3)	(50)	–	(50)
	66	**169**	**11**	**248**	**1,351**	**47**	**1,398**
	12,459	32,504	962	99,942	409,295	22,506	431,801
	–	–	–	195	195	–	195
	12,459	31,429	956	–	307,016	7,367	314,383
	12,581	31,932	2,596	–	312,605	7,560	320,165
	184	69	–	–	2,759	12	2,771
	1	–	–	–	125	–	125
	12,066	39,440	67,257	60,270	391,944	11,186	403,130
	12,066	37,052	66,194	–	325,505	9,396	334,901
	11,980	34,738	75,829	–	335,538	9,653	345,191
	14,726	42,235	2,259	16,586	250,486	9,406	259,892
	14,688	42,999	2,307	17,301	253,249	9,660	262,909
	10,040	30,500	477,868	2,082	653,345	–	653,345
-							
	89	196	5	–	1,509	64	1,573
	54	68	42	–	1,242	7	1,249
	11	32	1	145	327	32	359
	154	**296**	**48**	**145**	**3,078**	**103**	**3,181**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended June 30, 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	2,628	397	11	3,025	1	454
Interest expenses from externals	–	319	–	319	93	97
Interest revenues, net from externals	2,628	78	11	2,706	(92)	357
Interest revenues, net – inter-segment	(2,019)	356	(2)	(1,663)	122	53
Total interest revenues, net	**609**	**434**	**9**	**1,043**	**30**	**410**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	31	183	56	214	8	139
Total non-interest revenues	**31**	**183**	**56**	**214**	**8**	**139**
Total revenues	**640**	**617**	**65**	**1,257**	**38**	**549**
Expenses with respect to credit losses	38	17	–	55	1	12
Operating and other expenses to externals	218	571	17	789	6	295
Operating and other expenses – inter-segment	–	–	–	–	–	–
Total operating and other expenses	**218**	**571**	**17**	**789**	**6**	**295**
Pre-tax profit	384	29	48	413	31	242
Provision for taxes on profit	133	10	17	143	11	84
After-tax profit	**251**	**19**	**31**	**270**	**20**	**158**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	251	19	31	270	20	158
Net profit attributed to non-controlling interests	–	(20)	(2)	(20)	–	(2)
Net profit attributable to shareholders of the banking corporation	**251**	**(1)**	**29**	**250**	**20**	**156**
Average balance of assets	186,571	25,292	4,855	211,863	130	33,100
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	186,571	25,292	4,855	211,863	130	33,100
Balance of loans to the public at end of reported period	(3)190,179	26,854	4,643	217,033	151	34,493
Balance of non-accruing debts	1,375	73	–	1,448	–	626
Balance of debt in arrears 90 days or longer	–	35	–	35	–	70
Average balance of liabilities	–	125,665	4,855	125,665	22,763	54,783
Of which: Average balance of deposits from the public	–	120,810	–	120,810	22,763	54,783
Balance of deposits from the public at end of reported period	–	123,387	–	123,387	24,029	55,875
Average balance of risk assets(1)	105,205	24,196	4,209	129,401	69	29,956
Balance of risk assets at end of reported period(1)	106,794	24,631	4,193	131,425	70	31,342
Average balance of assets under management(2)	7,468	57,207	–	64,675	4,934	38,657
Breakdown of interest revenues, net:						
Margin from credit granting operations	582	251	10	833	–	332
Margin from activities of receiving deposits	–	180	–	180	29	69
Other	27	3	(1)	30	1	9
Total interest revenues, net	**609**	**434**	**9**	**1,043**	**30**	**410**

(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 14,797 million.

						Operations overseas	Total
	Medium businesses	**Large businesses**	**Institutional investors**	**Financial management segment**	**Total activity in Israel**	**Total – operations overseas**	
-							
	127	220	13	30	3,870	91	3,961
	29	103	221	639	1,501	7	1,508
	98	117	(208)	(609)	2,369	84	2,453
	12	69	258	1,162	13	(13)	–
	110	**186**	**50**	**553**	**2,382**	**71**	**2,453**
	(1)	–	–	164	163	13	176
	25	44	11	121	562	12	574
	24	**44**	**11**	**285**	**725**	**25**	**750**
	134	**230**	**61**	**838**	**3,107**	**96**	**3,203**
	24	6	(5)	–	93	14	107
	66	91	48	129	1,424	18	1,442
	–	–	–	–	–	–	–
	66	**91**	**48**	**129**	**1,424**	**18**	**1,442**
	44	133	18	709	1,590	64	1,654
	15	46	6	245	550	22	572
	29	**87**	**12**	**464**	**1,040**	**42**	**1,082**
	–	–	–	1	1	–	1
	29	87	12	465	1,041	42	1,083
	–	–	–	(8)	(30)	–	(30)
	29	**87**	**12**	**457**	**1,011**	**42**	**1,053**
	11,759	26,820	2,008	119,808	405,488	17,308	422,796
	–	–	–	18	18	–	18
	11,759	26,820	2,008	–	285,680	4,965	290,645
	11,476	28,460	3,321	–	294,934	5,937	300,871
	337	184	–	–	2,595	89	2,684
	–	38	–	–	143	–	143
	14,114	37,521	63,518	83,758	402,122	15,934	418,056
	14,114	37,521	63,518	–	313,509	5,037	318,546
	13,908	38,132	66,998	–	322,329	5,555	327,884
	13,342	36,270	2,217	13,403	224,658	6,385	231,043
	13,102	36,639	2,913	13,036	228,527	7,256	235,783
	6,608	30,232	373,258	3,097	521,461	–	521,461
-							
	92	147	7	–	1,411	3	1,414
	16	29	41	–	364	(2)	362
	2	10	2	553	607	70	677
	110	**186**	**50**	**553**	**2,382**	**71**	**2,453**

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 four 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 six months ended June 30, 2023 (unaudited)

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	(310)	5,421	(76)	398	175	289	430	6,327
Inter-segment	2,500	(4,251)	119	652	69	814	97	-
Total interest revenues, net	**2,190**	**1,170**	**43**	**1,050**	**244**	**1,103**	**527**	**6,327**
Non-interest financing revenues	16	-	-	1	-	46	274	337
Commissions and other revenues	368	75	10	241	41	179	243	1,157
Total revenues	**2,574**	**1,245**	**53**	**1,292**	**285**	**1,328**	**1,044**	**7,821**
Expenses with respect to credit losses	101	59	-	189	20	105	-	474
Operating and other expenses	1,242	468	14	530	131	353	220	2,958
Pre-tax profit	1,231	718	39	573	134	870	824	4,389
Provision for taxes on profit	428	250	14	199	47	302	286	1,526
After-tax profit	**803**	**468**	**25**	**374**	**87**	**568**	**538**	**2,863**
Share in net profit of associated companies, after tax	-	-	-	-	-	-	1	1
Net profit:								
Before attribution to non-controlling interests	803	468	25	374	87	568	539	2,864
Attributable to non-controlling interests	(85)	-	-	(7)	-	-	(7)	(99)
Net profit attributable to shareholders of the Bank	**718**	**468**	**25**	**367**	**87**	**568**	**532**	**2,765**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	53.7%	8.4%	-	38.1%	15.4%	15.7%	-	22.2%
Average balance of loans to the public, net	35,257	188,075	292	22,474	9,532	55,819	-	311,449
Average balance of deposits from the public	154,587	-	5,666	47,993	13,239	99,274	14,655	335,414
Average balance of assets	37,644	189,209	341	22,761	9,650	72,416	99,235	431,256
Average balance of risk assets(2)	30,685	109,189	174	19,077	11,012	70,541	16,667	257,345

(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 six months ended June 30, 2022 (unaudited)

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	255	4,346	(16)	420	142	579	(1,129)	4,597
Inter-segment	753	(3,318)	37	187	22	123	2,196	–
Total interest revenues, net	**1,008**	**1,028**	**21**	**607**	**164**	**702**	**1,067**	**4,597**
Non-interest financing revenues	40	–	–	2	–	42	209	293
Commissions and other revenues	365	71	10	251	46	186	597	1,526
Total revenues	**1,413**	**1,099**	**31**	**860**	**210**	**930**	**1,873**	**6,416**
Expenses with respect to credit losses	31	52	1	29	28	45	–	186
Operating and other expenses	1,163	428	14	501	144	316	264	2,830
Pre-tax profit	219	619	16	330	38	569	1,609	3,400
Provision for taxes on profit	73	208	5	111	13	191	540	1,141
After-tax profit	**146**	**411**	**11**	**219**	**25**	**378**	**1,069**	**2,259**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	2	2
Net profit:								
Before attribution to non-controlling interests	146	411	11	219	25	378	1,071	2,261
Attributable to non-controlling interests	(32)	–	–	(4)	–	–	(18)	(54)
Net profit attributable to shareholders of the Bank	**114**	**411**	**11**	**215**	**25**	**378**	**1,053**	**2,207**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	7.9%	8.2%	–	25.7%	16.3%	11.5%	–	20.6%
Average balance of loans to the public, net	32,901	172,968	434	22,286	8,970	43,386	–	280,945
Average balance of deposits from the public	141,484	–	7,103	45,730	14,577	86,760	17,279	312,933
Average balance of assets	34,404	174,155	321	22,588	9,104	54,797	109,832	405,201
Average balance of risk assets(2)	30,245	98,100	110	18,645	10,207	56,734	12,891	226,932

(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 June 30, 2023 (unaudited)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	(227)	2,883	(40)	178	91	109	187	3,181
Inter-segment	1,377	(2,297)	60	361	33	437	29	-
Total interest revenues, net	**1,150**	**586**	**20**	**539**	**124**	**546**	**216**	**3,181**
Non-interest financing revenues	8	-	-	1	-	30	211	250
Commissions and other revenues	184	38	6	118	19	83	116	564
Total revenues	**1,342**	**624**	**26**	**658**	**143**	**659**	**543**	**3,995**
Expenses with respect to credit losses	36	20	-	126	5	60	-	247
Operating and other expenses	636	239	7	277	67	182	113	1,521
Pre-tax profit	670	365	19	255	71	417	430	2,227
Provision for taxes on profit	234	128	7	89	25	146	150	779
After-tax profit	**436**	**237**	**12**	**166**	**46**	**271**	**280**	**1,448**
Share in net profit of associated companies, after tax	-	-	-	-	-	-	-	-
Net profit:								
Before attribution to non-controlling interests	436	237	12	166	46	271	280	1,448
Attributable to non-controlling interests	(41)	-	-	(4)	-	-	(5)	(50)
Net profit attributable to shareholders of the Bank	**395**	**237**	**12**	**162**	**46**	**271**	**275**	**1,398**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	58.7%	8.4%	-	33.4%	16.4%	14.9%	-	22.0%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the three months ended June 30, 2022 (unaudited)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	99	2,428	(11)	198	72	293	(626)	2,453
Inter-segment	446	(1,917)	20	121	16	93	1,221	–
Total interest revenues, net	**545**	**511**	**9**	**319**	**88**	**386**	**595**	**2,453**
Non-interest financing revenues	19	–	–	2	–	31	124	176
Commissions and other revenues	177	34	5	127	25	102	104	574
Total revenues	**741**	**545**	**14**	**448**	**113**	**519**	**823**	**3,203**
Expenses with respect to credit losses	17	38	1	9	27	15	–	107
Operating and other expenses	593	212	8	259	76	161	133	1,442
Pre-tax profit	131	295	5	180	10	343	690	1,654
Provision for taxes on profit	45	102	2	62	3	119	239	572
After-tax profit	**86**	**193**	**3**	**118**	**7**	**224**	**451**	**1,082**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit:								
Before attribution to non-controlling interests	86	193	3	118	7	224	452	1,083
Attributable to non-controlling interests	(20)	–	–	(2)	–	–	(8)	(30)
Net profit attributable to shareholders of the Bank	**66**	**193**	**3**	**116**	**7**	**224**	**444**	**1,053**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	7.4%	7.4%	–	33.3%	20.4%	11.8%	–	19.4%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

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	844	1,259	50	729	66	1,315	2,700	6,963
Provision for taxes on profit	286	426	17	247	22	445	913	2,356
After-tax profit (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

	Loans to the public – Commercial	Loans to the public – Housing	Loans to the public – Individual – other	Loans to the public – Total	Banks, governments and bonds	Total
For the three months ended June 30, 2023 (unaudited) – Provision for credit losses						
Balance of provision for credit losses at start of period	1,766	944	568	3,278	1	3,279
Expenses with respect to credit losses	168	21	58	247	–	247
Accounting write-offs[2]	(89)	–	(61)	(150)	–	(150)
Collection of debts written off for accounting purposes in previous years[2]	27	–	25	52	–	52
Net accounting write-offs	(62)	–	(36)	(98)	–	(98)
Balance of provision for credit losses at end of period	**1,872**	**965**	**590**	**3,427**	**1**	**3,428**
Of which: With respect to off balance sheet credit instruments	**162**	**5**	**20**	**187**	**–**	**187**
For the three months ended June 30, 2022 (unaudited)						
Balance of provision for credit losses at start of period	1,551	787	415	2,753	1	2,754
Expenses with respect to credit losses	51	38	18	107	–	107
Accounting write-offs[2]	(55)	–	(38)	(93)	–	(93)
Collection of debts written off for accounting purposes in previous years[2]	25	–	22	47	–	47
Net accounting write-offs	(30)	–	(16)	(46)	–	(46)
Other[4]	14	–	26	40	–	40
Balance of provision for credit losses at end of period	**1,586**	**825**	**443**	**2,854**	**1**	**2,855**
Of which: With respect to off balance sheet credit instruments	**191**	**12**	**13**	**216**	**–**	**216**
For the six months ended June 30, 2023 (unaudited)						
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	268	63	143	474	–	474
Accounting write-offs[2]	(142)	–	(115)	(257)	–	(257)
Collection of debts written off for accounting purposes in previous years[2]	56	–	50	106	–	106
Net accounting write-offs	(86)	–	(65)	(151)	–	(151)
Balance of provision for credit losses at end of period	**1,872**	**965**	**590**	**3,427**	**1**	**3,428**
Of which: With respect to off balance sheet credit instruments	**162**	**5**	**20**	**187**	**–**	**187**
For the six months ended June 30, 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	102	52	32	186	–	186
Accounting write-offs[2]	(93)	–	(73)	(166)	–	(166)
Collection of debts written off for accounting purposes in previous years[2]	55	–	45	100	–	100
Net accounting write-offs	(38)	–	(28)	(66)	–	(66)
Other[4]	(9)	1	36	28	–	28
Balance of provision for credit losses at end of period	**1,586**	**825**	**443**	**2,854**	**1**	**2,855**
Of which: With respect to off balance sheet credit instruments	**191**	**12**	**13**	**216**	**–**	**216**

(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:

	June 30, 2023 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Recorded debt balance						
reviewed on individual basis	77,947	–	318	78,265	30,977	109,242
reviewed on group basis	13,178	201,990	26,732	241,900	–	241,900
Total debts	**91,125**	**(2)201,990**	**27,050**	**320,165**	**30,977**	**351,142**
Provision for credit losses with respect to debts						
reviewed on individual basis	1,230	–	10	1,240	1	1,241
reviewed on group basis	480	960	560	2,000	–	2,000
Total provision for credit losses	**1,710**	**960**	**570**	**3,240**	**1**	**3,241**
	June 30, 2022 (unaudited)					
Recorded debt balance						
reviewed on individual basis	71,965	–	419	72,384	27,952	100,336
reviewed on group basis	12,774	190,323	25,390	228,487	–	228,487
Total debts	**84,739**	**(2)190,323**	**25,809**	**300,871**	**27,952**	**328,823**
Provision for credit losses with respect to debts						
reviewed on individual basis	1,075	–	10	1,085	1	1,086
reviewed on group basis	320	813	420	1,553	–	1,553
Total provision for credit losses	**1,395**	**813**	**430**	**2,638**	**1**	**2,639**
	As of December 31, 2022 (audited)					
Recorded debt balance						
reviewed on individual basis	73,817	–	407	74,224	30,560	104,784
reviewed on group basis	13,160	196,840	26,132	236,132	–	236,132
Total debts	**86,977**	**(2)196,840**	**26,539**	**310,356**	**30,560**	**340,916**
Provision for credit losses with respect to debts						
reviewed on individual basis	1,106	–	12	1,118	1	1,119
reviewed on group basis	385	897	484	1,766	–	1,766
Total provision for credit losses	**1,491**	**897**	**496**	**2,884**	**1**	**2,885**

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

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 12,997 million (as of June 30, 2022: NIS 12,306 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 June 30, 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)]	26,402	378	144	26,924	8	46
Construction and real estate – real estate operations	7,673	337	67	8,077	3	70
Financial services	8,527	5	20	8,552	2	5
Commercial – other	41,117	882	726	42,725	58	187
Total commercial	**83,719**	**1,602**	**957**	**86,278**	**71**	**308**
Private individuals – residential mortgages	200,128	–	1,735	201,863	–	1,332
Private individuals – other	26,802	178	67	27,047	54	137
Total loans to the public – activity in Israel	**310,649**	**1,780**	**2,759**	**315,188**	**125**	**1,777**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,550	–	–	2,550	–	–
Commercial – other	2,244	41	12	2,297	–	–
Total commercial	**4,794**	**41**	**12**	**4,847**	**–**	**–**
Private individuals	130	–	–	130	–	–
Total loans to the public – activity overseas	**4,924**	**41**	**12**	**4,977**	**–**	**–**
Total loans to the public	**315,573**	**1,821**	**2,771**	**320,165**	**125**	**1,777**

(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 161 million were classified as problematic debts.
(4) Includes debts amounting to NIS 1,342 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 June 30, 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]	23,664	96	147	23,907	60	27
Construction and real estate – real estate operations	6,751	32	65	6,848	15	17
Financial services	10,119	21	8	10,148	–	10
Commercial – other	38,068	501	927	39,496	33	134
Total commercial	**78,602**	**650**	**1,147**	**80,399**	**108**	**188**
Private individuals – residential mortgages[5]	188,787	–	1,375	190,162	–	947
Private individuals – other	25,563	142	73	25,778	35	59
Total loans to the public – activity in Israel	**292,952**	**792**	**2,595**	**296,339**	**143**	**1,194**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,451	–	–	2,451	–	–
Commercial – other	1,765	35	89	1,889	–	–
Total commercial	**4,216**	**35**	**89**	**4,340**	**–**	**–**
Private individuals	192	–	–	192	–	–
Total loans to the public – activity overseas	**4,408**	**35**	**89**	**4,532**	**–**	**–**
Total loans to the public	**297,360**	**827**	**2,684**	**300,871**	**143**	**1,194**

(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 174 million were classified as problematic debts.
(4) Includes debts amounting to NIS 1,365 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 June 30, 2023 (unaudited)								
	Recorded debt balance of term loans to the public								
	2023	2022	2021	2020	2019	Previously	Recorded debt balance of renewable loans	Recorded debt balance of renewable loans converted into term loans	Total
Credit quality by year when credit was extended									
Borrower activity in Israel									
Public – commercial									
Construction and real estate – total	**11,245**	**12,209**	**5,272**	**1,437**	**633**	**699**	**2,995**	**511**	**35,001**
Credit at performing credit rating	10,253	12,004	5,054	1,372	611	628	2,591	482	32,995
Credit other than at performing credit rating and non-problematic	559	88	177	16	3	41	191	5	1,080
Accruing problematic credit	414	77	30	14	6	5	151	18	715
Non-accruing credit	19	40	11	35	13	25	62	6	211
Commercial, other – total	**7,923**	**9,708**	**5,923**	**4,633**	**1,462**	**1,858**	**19,406**	**364**	**51,277**
Credit at performing credit rating	7,535	9,169	5,155	4,274	1,371	1,661	18,489	334	47,988
Credit other than at performing credit rating and non-problematic	175	239	592	85	15	26	513	11	1,656
Accruing problematic credit	102	156	51	123	20	55	374	6	887
Non-accruing credit	111	144	125	151	56	116	30	13	746
Individuals – residential mortgages – total	**11,024**	**36,964**	**34,048**	**22,155**	**18,184**	**79,488**	**–**	**–**	**201,863**
LTV up to 60%	6,641	20,267	18,992	12,915	11,381	57,788	–	–	127,984
LTV from 60% to 75%	4,203	16,004	14,553	8,609	6,731	21,200	–	–	71,300
LTV over 75%	180	693	503	631	72	500	–	–	2,579
Credit at performing credit rating, not in arrears	10,835	36,399	33,385	21,602	17,650	77,046	–	–	196,917
Credit not at performing credit rating, not in arrears	145	365	300	195	178	696	–	–	1,879
In arrears 30-89 days	31	121	198	163	149	670	–	–	1,332
Non-accruing credit	13	79	165	195	207	1,076	–	–	1,735
Individuals, other – total	**4,404**	**7,551**	**3,435**	**1,701**	**1,332**	**1,650**	**6,912**	**62**	**27,047**
Credit at performing credit rating, not in arrears	4,330	7,374	3,338	1,659	1,298	1,590	6,830	56	26,475
Credit not at performing credit rating, not in arrears	42	78	45	28	29	54	35	3	314
In arrears 30-89 days	12	59	27	4	2	4	29	–	137
In arrears over 90 days	5	21	16	3	2	1	6	–	54
Non-accruing credit	15	19	9	7	1	1	12	3	67
Total loans to the public – activity in Israel	**34,596**	**66,432**	**48,678**	**29,926**	**21,611**	**83,695**	**29,313**	**937**	**315,188**
Borrower activity overseas									
Total loans to the public – activity overseas	**670**	**1,168**	**1,396**	**642**	**134**	**967**	**–**	**–**	**4,977**
Non-problematic credit	666	1,154	1,375	629	133	967	–	–	4,924
Accruing problematic credit	4	10	18	9	–	–	–	–	41
Non-accruing credit	–	4	3	4	1	–	–	–	12
Total loans to the public	**35,266**	**67,600**	**50,074**	**30,568**	**21,745**	**84,662**	**29,313**	**937**	**320,165**

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

	Recorded debt balance of term loans to the public								As of June 30, 2022 (unaudited)
	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	**12,553**	**10,104**	**2,669**	**989**	**752**	**858**	**2,461**	**369**	**30,755**
Credit at performing credit rating	12,409	9,823	2,527	902	619	790	2,269	365	29,704
Credit other than at performing credit rating and non-problematic	109	240	103	60	120	34	41	4	711
Accruing problematic credit	22	12	26	7	3	6	52	–	128
Non-accruing credit	13	29	13	20	10	28	99	–	212
Commercial, other – total	**10,263**	**8,047**	**6,477**	**2,141**	**1,502**	**2,058**	**18,870**	**286**	**49,644**
Credit at performing credit rating	9,705	7,564	6,130	2,009	1,421	1,919	18,192	261	47,201
Credit other than at performing credit rating and non-problematic	139	283	138	22	23	32	342	7	986
Accruing problematic credit	78	50	120	43	14	11	195	11	522
Non-accruing credit	341	150	89	67	44	96	141	7	935
Individuals – residential mortgages – total	**18,934**	**29,010**	**24,700**	**19,259**	**21,459**	**76,800**	**–**	**–**	**190,162**
LTV up to 60%	9,694	15,876	13,718	12,970	13,430	54,554	–	–	120,242
LTV from 60% to 75%	9,091	13,026	10,828	6,210	7,656	20,612	–	–	67,423
LTV over 75%	149	108	154	79	373	1,634	–	–	2,497
Credit at performing credit rating, not in arrears	18,648	28,537	24,290	18,874	21,016	75,055	–	–	186,420
Credit not at performing credit rating, not in arrears	258	307	192	123	88	452	–	–	1,420
In arrears 30-89 days	23	113	130	113	165	403	–	–	947
Non-accruing credit	5	53	88	149	190	890	–	–	1,375
Individuals, other – total	**5,181**	**5,852**	**2,967**	**2,330**	**1,348**	**1,461**	**6,573**	**66**	**25,778**
Credit at performing credit rating, not in arrears	5,133	5,760	2,899	2,264	1,299	1,395	6,461	63	25,274
Credit not at performing credit rating, not in arrears	32	64	46	51	43	61	38	2	337
In arrears 30-89 days	2	9	5	4	3	3	33	–	59
In arrears over 90 days	–	6	5	2	1	–	21	–	35
Non-accruing credit	14	13	12	9	2	2	20	1	73
Total loans to the public – activity in Israel	**46,931**	**53,013**	**36,813**	**24,719**	**25,061**	**81,177**	**27,904**	**721**	**296,339**
Borrower activity overseas									
Total loans to the public – activity overseas	**1,729**	**670**	**783**	**587**	**379**	**384**	**–**	**–**	**4,532**
Non-problematic credit	1,729	621	741	554	379	384	–	–	4,408
Accruing problematic credit	–	17	18	–	–	–	–	–	35
Non-accruing credit	–	32	24	33	–	–	–	–	89
Total loans to the public	**48,660**	**53,683**	**37,596**	**25,306**	**25,440**	**81,561**	**27,904**	**721**	**300,871**

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 June 30, 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	211	38	–	211	465	4
Commercial – other	541	181	205	746	1,232	6
Total commercial	**752**	**219**	**205**	**957**	**1,697**	**10**
Private individuals – residential mortgages	1,735	87	–	1,735	1,826	–
Private individuals – other	63	51	4	67	82	3
Total loans to the public – activity in Israel	**2,550**	**357**	**209**	**2,759**	**3,605**	**13**
Borrower activity overseas						
Total loans to the public – activity overseas	**12**	**1**	**–**	**12**	**85**	**–**
Total	**2,562**	**358**	**209**	**2,771**	**3,690**	**13**
Of which:						
Measured individually at present value of cash flows	640	206	195	835	1,586	
Measured individually at fair value of collateral	95	6	10	105	191	
Measured on group basis	1,827	146	4	1,831	1,913	

(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 83 million.

Total average recorded debt balance for non-accruing debt in the six months ended June 30, 2023 amounted to NIS 2,684 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 June 30, 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	206	28	6	212	306	6
Commercial – other	868	252	67	935	1,330	5
Total commercial	**1,074**	**280**	**73**	**1,147**	**1,636**	**11**
Private individuals – residential mortgages[4]	1,338	106	37	1,375	1,779	–
Private individuals – other	67	41	6	73	85	6
Total loans to the public – activity in Israel	**2,479**	**427**	**116**	**2,595**	**3,500**	**17**
Borrower activity overseas						
Total loans to the public – activity overseas	**89**	**12**	**–**	**89**	**33**	**–**
Total	**2,568**	**439**	**116**	**2,684**	**3,533**	**17**
Of which:						
Measured individually at present value of cash flows	1,076	282	44	1,120	1,607	
Measured individually at fair value of collateral	82	4	29	111	140	
Measured on group basis	1,410	153	43	1,453	1,786	

(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 79 million.

Additional information: Total average recorded debt balance for non-accruing debt in the six months ended June 30, 2022 amounted to NIS 2,666 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 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

	June 30, 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	33	–	–	1	34
Commercial – other	135	–	–	12	147
Total commercial	**168**	**–**	**–**	**13**	**181**
Private individuals – residential mortgages	38	–	–	–	38
Private individuals – other	38	–	–	22	60
Total loans to the public – activity in Israel	**244**	**–**	**–**	**35**	**279**
Borrower activity overseas					
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**
Total	**244**	**–**	**–**	**35**	**279**

	June 30, 2022 (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	42	–	–	8	50
Commercial – other	150	–	–	11	161
Total commercial	**192**	**–**	**–**	**19**	**211**
Private individuals – residential mortgages[2]	31	–	–	–	31
Private individuals – other	41	–	–	32	73
Total loans to the public – activity in Israel	**264**	**–**	**–**	**51**	**315**
Borrower activity overseas					
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**
Total	**264**	**–**	**–**	**51**	**315**

(1) Accruing interest revenues.
(2) Reclassified.

As of June 30, 2023, debt subject to re-structuring of problematic debt, amounting to NIS 268 million, was classified as problematic debt. As of June 30, 2022 – NIS 315 million classified as problematic debts.

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					
	June 30, 2023 (unaudited)			June 30, 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	14	2	2	15	5	5
Commercial – other	128	12	11	53	64	64
Total commercial	**142**	**14**	**13**	**68**	**69**	**69**
Private individuals – residential mortgages[(1)]	13	1	–	14	3	3
Private individuals – other	264	11	11	290	13	13
Total loans to the public – activity in Israel	**419**	**26**	**24**	**372**	**85**	**85**
Borrower activity overseas						
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Total	**419**	**26**	**24**	**372**	**85**	**85**

	For the six months ended					
	June 30, 2023 (unaudited)			June 30, 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	23	2	2	31	7	7
Commercial – other	244	37	36	153	69	67
Total commercial	**267**	**39**	**38**	**184**	**76**	**74**
Private individuals – residential mortgages[(1)]	25	2	1	30	6	6
Private individuals – other	468	19	19	530	21	21
Total loans to the public – activity in Israel	**760**	**60**	**58**	**744**	**103**	**101**
Borrower activity overseas						
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Total	**760**	**60**	**58**	**744**	**103**	**101**

(1) 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.B. Additional information about debt subject to re-structuring of problematic debt – continued

	Restructurings made which are in default[1]			
	For the three months ended			
	June 30, 2023 (unaudited)		June 30, 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	–
Commercial – other	21	2	16	–
Total commercial	**21**	**2**	**21**	
Private individuals – residential mortgages[2]	68	2	–	–
Private individuals – other	47	1	91	4
Total public – activity in Israel	**136**	**5**	**112**	**4**
Borrower activity overseas				
Total public – activity overseas	**–**	**–**	**–**	**–**
Total	**136**	**5**	**112**	**4**

	For the six months ended			
	June 30, 2023 (unaudited)		June 30, 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	12	–
Commercial – other	33	3	51	5
Total commercial	**38**	**4**	**63**	**5**
Private individuals – residential mortgages[2]	156	5	–	–
Private individuals – other	109	1	187	4
Total loans to the public – activity in Israel	**303**	**10**	**250**	**9**
Borrower activity overseas				
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**
Total	**303**	**10**	**250**	**9**

(1) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears.

(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

	Not in arrears 90 days or longer	In arrears 90 to 180 days	In arrears 180 days to 1 year	In arrears over 1 year to 3 years	In arrears over 3 years to 5 years	In arrears over 5 years to 7 years	In arrears over 7 years	Total
	As of June 30, 2023 (unaudited)							
Commercial	355	191	137	218	36	20	12	969
Residential mortgages	300	764	396	190	33	16	36	1,735
Private individuals – other	42	7	5	8	3	–	2	67
Total	**697**	**962**	**538**	**416**	**72**	**36**	**50**	**2,771**
	As of June 30, 2022 (unaudited)							
Commercial	746	94	143	154	58	31	10	1,236
Residential mortgages(1)	214	596	306	171	43	15	30	1,375
Private individuals – other	36	3	13	13	7	1	–	73
Total	**996**	**693**	**462**	**338**	**108**	**47**	**40**	**2,684**
	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:

		June 30, 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%	127,708	3,736	79,151	3,139
	Over 60%	73,782	842	45,820	2,722
Junior lien or no lien		500	3	325	7,575
Total		**201,990**	**4,581**	**125,296**	**13,436**

		June 30, 2022 (unaudited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV	Up to 60%	120,098	3,454	76,146	3,975
	Over 60%	69,839	807	43,714	4,322
Junior lien or no lien		386	4	272	10,102
Total		**190,323**	**4,265**	**120,132**	**18,399**

		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

	Credit risk to the public sold					Credit risk to the public purchased(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 in the period(3)	Off-balance sheet credit risk(2) accrued during this period	Of which: Problematic credit
For the three months ended June 30, 2023 (unaudited)								
Commercial – other	–	–	–	–	–	–	–	–
Private individuals – residential mortgages	–	–	–	–	5,394	–	–	–
Private individuals – other	–	–	–	–	–	825	–	–
Total credit risk to public	**–**	**–**	**–**	**–**	**5,394**	**825**	**–**	**–**
For the three months ended June 30, 2022 (unaudited)								
Commercial – other	3	50	–	–	–	–	–	–
Private individuals – residential mortgages	–	–	–	–	4,106	–	–	–
Private individuals – other	–	–	–	–	–	457	–	–
Total credit risk to public	**3**	**50**	**–**	**–**	**4,106**	**457**	**–**	**–**
For the six months ended June 30, 2023 (unaudited)								
Commercial – other	25	–	–	–	–	–	–	–
Private individuals – residential mortgages	–	–	–	–	5,394	–	–	–
Private individuals – other	–	–	–	–	–	1,533	–	–
Total credit risk to public	**25**	**–**	**–**	**–**	**5,394**	**1,533**	**–**	**–**
For the six months ended June 30, 2022 (unaudited)								
Commercial – other	3	50	–	–	–	–	–	–
Private individuals – residential mortgages	–	–	–	–	4,106	–	–	–
Private individuals – other	–	–	–	–	–	1,039	–	–
Total credit risk to public	**3**	**50**	**–**	**–**	**4,106**	**1,039**	**–**	**–**
For the year ended December 31, 2022 (audited)								
Commercial – other	3	50	–	–	–	191	–	–
Private individuals – residential mortgages	1,899	–	–	–	(4)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).
(4) Restated.

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

	June 30, 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	1,404	1	1,583	–	590	110
Commercial – other	3,447	2,547	7,648	3,083	2,476	700
Total credit risk to public	**4,851**	**2,548**	**9,231**	**3,083**	**3,066**	**810**

	June 30, 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	1,620	1	1,860	–	554	362
Commercial – other	2,139	977	5,878	1,015	1,229	1,272
Total credit risk to public	**3,759**	**978**	**7,738**	**1,015**	**1,783**	**1,634**

	December 31, [(3)]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	553
Total credit risk to public	**4,392**	**2,535**	**8,773**	**2,671**	**2,658**	**661**

(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 629 million as of June 30, 2023 (as of June 30, 2022: NIS 316 million; as of December 31, 2022: NIS 274 million).

(3) Restated.

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

	June 30		December 31	June 30		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	22,849	20,897	21,772	32	25	23
– Guarantees to home buyers	16,243	19,585	19,069	3	15	10
– Irrevocable commitments for loans approved but not yet granted[3]	25,267	30,373	21,029	22	26	35
– Unutilized revolving credit card facilities	11,893	11,259	11,730	13	13	11
– Commitments to issue guarantees	9,455	9,010	8,122	1	1	2
– Guarantees and other liabilities[2]	12,777	12,164	12,881	70	89	101
– Loan guarantees	3,796	3,202	3,531	43	45	36
– Documentary credit	718	367	315	3	2	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 36 million. (On June 30, 2022 and on December 31, 2022: NIS 68 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 June 30, 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	66,164	44	17,183	237	118	–	83,746
Securities	9,606	4,231	4,980	427	–	621	19,865
Securities borrowed or bought in conjunction with resale agreements	–	4	–	–	–	–	4
Loans to the public, net[3]	220,948	79,475	9,317	4,756	2,429	–	316,925
Loans to Governments	5	–	219	301	–	–	525
Investments in associated companies	36	–	–	–	–	161	197
Buildings and equipment	–	–	–	–	–	1,438	1,438
Intangible assets and goodwill	–	–	–	–	–	163	163
Assets with respect to derivatives	1,345	125	3,544	705	112	–	5,831
Other assets	2,211	279	661	13	23	841	4,028
Total assets	**300,315**	**84,158**	**35,904**	**6,439**	**2,682**	**3,224**	**432,722**
Liabilities							
Deposits from the public	253,662	26,047	56,426	6,229	2,827	–	345,191
Deposits from banks	4,988	–	1,220	298	35	–	6,541
Deposits from the Government	12	2	13	2	–	–	29
Bonds and subordinated notes	6,225	28,085	2,236	–	–	–	36,546
Liabilities with respect to derivatives	1,273	168	2,825	496	71	–	4,833
Other liabilities	8,547	2,943	322	2	26	752	12,592
Total liabilities	**274,707**	**57,245**	**63,042**	**7,027**	**2,959**	**752**	**405,732**
Difference	**25,608**	**26,913**	**(27,138)**	**(588)**	**(277)**	**2,472**	**26,990**
Impact of hedging derivatives:							
Derivative instruments (other than options)	1,101	(1,101)	–	–	–	–	–
Non-hedging financial derivatives:							
Derivative instruments (other than options)	(26,505)	(535)	26,844	82	114	–	–
Net in-the-money options (in terms of underlying asset)	(539)	–	239	295	5	–	–
Net out-of-the-money options (in terms of underlying asset)	(347)	–	229	115	3	–	–
Grand total	**(682)**	**25,277**	**174**	**(96)**	**(155)**	**2,472**	**26,990**
Net in-the-money options (capitalized par value)	(598)	–	448	146	4	–	–
Net out-of-the-money options (capitalized par value)	201	–	(601)	362	38	–	–

(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 June 30, 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	72,648	–	8,024	476	182	–	81,330
Securities	8,120	2,202	10,978	372	–	712	22,384
Securities borrowed or bought in conjunction with resale agreements	1,810	314	–	–	–	–	2,124
Loans to the public, net[3]	210,905	72,921	8,711	3,658	2,038	–	298,233
Loans to Governments	79	–	259	126	–	–	464
Investments in associated companies	35	–	–	–	–	74	109
Buildings and equipment	–	–	–	–	–	1,421	1,421
Intangible assets and goodwill	–	–	–	–	–	193	193
Assets with respect to derivatives	1,308	112	5,216	407	37	–	7,080
Other assets	2,183	230	327	13	59	819	3,631
Total assets	**297,088**	**75,779**	**33,515**	**5,052**	**2,316**	**3,219**	**416,969**
Liabilities							
Deposits from the public	244,484	23,300	51,671	5,902	2,527	–	327,884
Deposits from banks	5,622	–	2,642	242	9	–	8,515
Deposits from the Government	40	2	15	–	–	–	57
Bonds and subordinated notes	4,787	28,271	2,115	–	–	–	35,173
Liabilities with respect to derivatives	1,229	196	4,558	258	23	–	6,264
Other liabilities	11,282	3,207	220	2	28	1,154	15,893
Total liabilities	**267,444**	**54,976**	**61,221**	**6,404**	**2,587**	**1,154**	**393,786**
Difference	**29,644**	**20,803**	**(27,706)**	**(1,352)**	**(271)**	**2,065**	**23,183**
Impact of hedging derivatives:							
Derivative instruments (other than options)	1,744	(1,744)	–	–	–	–	–
Non-hedging financial derivatives:							
Derivative instruments (other than options)	(27,210)	(817)	26,833	1,034	160	–	–
Net in-the-money options (in terms of underlying asset)	(856)	–	575	317	(36)	–	–
Net out-of-the-money options (in terms of underlying asset)	(233)	–	263	(25)	(5)	–	–
Grand total	**3,089**	**18,242**	**(35)**	**(26)**	**(152)**	**2,065**	**23,183**
Net in-the-money options (capitalized par value)	(1,318)	–	1,365	(1)	(46)	–	–
Net out-of-the-money options (capitalized par value)	1,632	–	(1,579)	(103)	50	–	–

(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

	June 30, 2023 (unaudited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	83,746	24,805	56,567	2,320	83,692
Securities[(3)]	19,865	15,358	4,026	323	19,707
Securities borrowed or purchased in resale agreements	4	4	–	–	4
Loans to the public, net	316,925	2,671	10,809	[(5)]295,703	309,183
Loans to Governments	525	–	–	523	523
Investments in associated companies	197	–	–	197	197
Assets with respect to derivatives	5,831	380	4,927	[(2)]524	5,831
Other financial assets	925	7	–	918	925
Total financial assets	**[(4)]428,018**	**43,225**	**76,329**	**300,508**	**420,062**
Financial liabilities					
Deposits from the public	345,191	4,826	92,684	[(5)]244,591	342,101
Deposits from banks	6,541	–	1,008	5,519	6,527
Deposits from the Government	29	–	–	27	27
Bonds and subordinated notes	36,546	31,739	–	2,779	34,518
Liabilities with respect to derivatives	4,833	380	3,882	[(2)]571	4,833
Other financial liabilities	8,008	2,381	1,993	3,627	8,001
Total financial liabilities	**[(4)]401,148**	**39,326**	**99,567**	**257,114**	**396,007**

(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 103,616 million and NIS 112,307 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 10 million and NIS 5 million, respectively.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued:

	June 30, 2022 (unaudited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	81,330	16,494	56,527	8,108	81,129
Securities[(3)]	22,384	18,123	3,714	485	22,322
Securities borrowed or purchased in resale agreements	2,124	2,124	–	–	2,124
Loans to the public, net	298,233	2,250	10,466	[(5)]288,166	300,882
Loans to Governments	464	–	–	461	461
Investments in associated companies	109	–	–	109	109
Assets with respect to derivatives	7,080	270	4,741	[(2)]2,069	7,080
Other financial assets	1,261	7	–	1,254	1,261
Total financial assets	**[(4)]412,985**	**39,268**	**75,448**	**300,652**	**415,368**
Financial liabilities					
Deposits from the public	327,884	2,250	120,148	204,125	326,523
Deposits from banks	8,515	–	1,073	7,419	8,492
Deposits from the Government	57	–	–	58	58
Bonds and subordinated notes	35,173	33,675	2	751	34,428
Liabilities with respect to derivatives	6,264	261	4,434	[(2)]1,569	6,264
Other financial liabilities	12,253	4,616	1,918	5,717	12,251
Total financial liabilities	**[(4)]390,146**	**40,802**	**127,575**	**219,639**	**388,016**

(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 96,813 million and NIS 143,558 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

	June 30, 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	3,111	3,202	–	6,313
Of foreign governments	1,242	–	–	1,242
Of banks and financial institutions in Israel	399	47	–	446
Of banks and financial institutions overseas	10	230	–	240
Asset-backed (ABS)	–	56	–	56
Of others in Israel	802	98	2	902
Of others overseas	191	4	1	196
Shares not held for trading	228	60	25	313
Securities held for trading:				
Bonds of the Government of Israel	6,209	–	–	6,209
Bonds of overseas governments	–	329	–	329
Bonds of financial institutions in Israel	3	–	–	3
Bonds of others in Israel	22	–	–	22
Bonds of foreign others	33	–	–	33
Shares held for trading	16	–	–	16
Securities borrowed or purchased in resale agreements	4	–	–	4
Credit with respect to loans to customers	2,671	–	–	2,671
Assets with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	–	68	58	126
Other	–	2,190	3	2,193
Currency contracts	69	2,640	461	3,170
Contracts for shares	301	29	2	332
Commodities and other contracts	10	–	–	10
Other financial assets	7	–	–	7
Other	–	–	10	10
Total assets	**15,328**	**8,953**	**562**	**24,843**
Liabilities				
Deposits with respect to borrowing from customers	4,826	–	–	4,826
Liabilities with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	–	107	61	168
Other	–	1,692	70	1,762
Currency contracts	68	2,049	438	2,555
Contracts for shares	302	28	2	332
Commodities and other contracts	10	6	–	16
Other financial liabilities	2,381	–	–	2,381
Other	–	–	5	5
Total liabilities	**7,587**	**3,882**	**576**	**12,045**

(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

	June 30, 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	3,509	3,266	–	6,775
Of foreign governments	7,574	–	–	7,574
Of banks and financial institutions in Israel	410	9	–	419
Of banks and financial institutions overseas	11	169	72	252
Asset-backed (ABS)	–	54	–	54
Of others in Israel	557	101	63	721
Of others overseas	227	10	3	240
Investments in shares not held for trading	241	105	23	369
Securities held for trading:				
Bonds of the Government of Israel	2,151	–	–	2,151
Bonds of financial institutions in Israel	1	–	–	1
Bonds of others in Israel	32	–	–	32
Bonds of foreign others	44	–	–	44
Shares	22	–	–	22
Securities borrowed or purchased in resale agreements	2,124	–	–	2,124
Credit with respect to loans to customers	2,250	–	–	2,250
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	60	51	111
Other	–	1,265	34	1,299
Currency contracts	157	3,379	1,821	5,357
Contracts for shares	113	37	161	311
Commodities and other contracts	–	–	2	2
Other financial assets	7	–	–	7
Other	–	–	9	9
Total assets	**19,430**	**8,455**	**2,239**	**30,124**
Liabilities				
Deposits with respect to borrowing from customers	2,250	–	–	2,250
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	103	94	197
Other	–	1,047	79	1,126
Currency contracts	148	3,257	1,234	4,639
Contracts for shares	113	14	162	289
Commodities and other contracts	–	13	–	13
Other financial liabilities	4,616	–	–	4,616
Other	–	–	9	9
Total liabilities	**7,127**	**4,434**	**1,578**	**13,139**

(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

	June 30, 2023 (unaudited)				For the three months ended June 30, 2023	For the six months ended June 30, 2023
	Fair value					
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)	
Non-accruing credit whose collection is contingent on collateral	–	–	105	105	(9)	(16)
Investments in shares for which no fair value is available	–	–	292	292	17	17

	June 30, 2022 (unaudited)				For the three months ended June 30, 2022	For the six months ended June 30, 2022
	Fair value					
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)	
Non-accruing credit whose collection is contingent on collateral	–	–	111	111	(6)	(8)
Investments in shares for which no fair value is available	–	–	321	321	(8)	(1)

	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 June 30, 2023 (unaudited)									
		Net realized / unrealized gains (losses) included[(1)]								
	Fair value as of March 31, 2023	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisi -tions	Sales	Disposi-t ions	Transfer to level 3[(3)]	Transfers from Level 3[(3)]	Fair value as of June 30, 2023	Unrealized gains (losses) with respect to instruments held as of June 30, 2023
Assets										
Securities available for sale										
Bonds:										
Of foreign financial institutions	9	–	–	–	–	–	–	(9)	–	–
Of others in Israel	2	–	–	–	–	–	–	–	2	–
Of others overseas	3	–	–	–	–	(2)	–	–	1	–
Shares not held for trading	24	1	–	–	–	–	–	–	25	1
Assets with respect to derivatives[(2)]										
Interest contracts:										
NIS / CPI	77	1	–	–	–	(20)	–	–	58	33
Other	3	–	–	–	–	–	–	–	3	(5)
Currency contracts	411	86	–	167	–	(203)	–	–	461	297
Contracts for shares	2	(1)	–	2	–	(1)	–	–	2	–
Commodities and other contracts	3	(3)	–	–	–	–	–	–	–	–
Other	9	1	–	–	–	–	–	–	10	–
Total assets	**543**	**85**	**–**	**169**	**–**	**(226)**	**–**	**(9)**	**562**	**326**
Liabilities										
Liabilities with respect to derivatives[(2)]										
Interest contracts:										
NIS / CPI	56	9	–	1	–	(20)	15	–	61	(2)
Other	60	10	–	–	–	–	–	–	70	(62)
Currency contracts	504	63	–	220	–	(349)	–	–	438	(329)
Contracts for shares	15	(3)	–	2	–	(12)	–	–	2	–
Other	6	(1)	–	–	–	–	–	–	5	–
Total liabilities	**641**	**78**	**–**	**223**	**–**	**(381)**	**15**	**–**	**576**	**(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 – Continued:

	For the three months ended June 30, 2022 (unaudited)									
		Net realized / unrealized gains (losses) included[1]								
	Fair value as of March 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 June 30, 2022	Unrealized gains (losses) with respect to instruments held as of June 30, 2022
Assets										
Securities available for sale										
Bonds:										
Of foreign financial institutions	23	2	–	–	–	–	53	(6)	72	2
Of others in Israel	22	2	(1)	–	–	(1)	41	–	63	4
Of others overseas	3	–	–	–	–	–	–	–	3	–
Shares not held for trading	21	2	–	–	–	–	–	–	23	(1)
Assets with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	47	(1)	–	3	–	(2)	4	–	51	26
Other	24	(21)	–	31	–	–	–	–	34	12
Currency contracts	1,047	378	–	1,040	–	(641)	–	(3)	1,821	1,594
Contracts for shares	386	(82)	–	4	–	(147)	–	–	161	–
Commodities and other contracts	2	–	–	–	–	–	–	–	2	–
Other	8	1	–	–	–	–	–	–	9	–
Total assets	**1,583**	**281**	**(1)**	**1,078**	**–**	**(791)**	**98**	**(9)**	**2,239**	**1,637**
Liabilities										
Liabilities with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	75	21	–	2	–	(11)	7	–	94	(43)
Other	83	(4)	–	1	–	(1)	–	–	79	(63)
Currency contracts	943	510	–	349	–	(568)	–	–	1,234	(788)
Contracts for shares	42	33	–	90	–	(3)	–	–	162	–
Commodities and other contracts	7	(7)	–	–	–	–	–	–	–	–
Other	9	–	–	–	–	–	–	–	9	–
Total liabilities	**1,159**	**553**	**–**	**442**	**–**	**(583)**	**7**	**–**	**1,578**	**(894)**

(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 six months ended June 30, 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	Acquisi-tions	Sales	Disposi-tions	Transfer to level 3[3]	Transfers from Level 3[3]	Fair value as of June 30, 2023	Unrealized gains (losses) with respect to instruments held as of June 30, 2023
Assets										
Securities available for sale										
Bonds:										
Of foreign financial institutions	–	–	–	–	–	–	–	–	–	–
Of others in Israel	11	8	(6)	–	–	(11)	–	–	2	–
Of others overseas	3	–	–	–	–	(2)	–	–	1	–
Shares not held for trading	23	2	–	–	–	–	–	–	25	2
Assets with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	56	14	–	2	–	(20)	6	–	58	33
Other	3	2	–	–	–	(2)	–	–	3	(5)
Currency contracts	307	192	–	333	–	(371)	–	–	461	297
Contracts for shares	39	(9)	–	3	–	(31)	–	–	2	–
Commodities and other contracts	2	(2)	–	–	–	–	–	–	–	–
Other	9	1	–	–	–	–	–	–	10	–
Total assets	**453**	**208**	**(6)**	**338**	**–**	**(437)**	**6**	**–**	**562**	**327**
Liabilities										
Liabilities with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	61	19	–	2	–	(39)	18	–	61	(2)
Other	64	6	–	–	–	–	–	–	70	(62)
Currency contracts	233	222	–	477	–	(494)	–	–	438	(329)
Contracts for shares	83	(4)	–	6	–	(83)	–	–	2	–
Commodities and other contracts	–	–	–	–	–	–	–	–	–	–
Other	7	(2)	–	–	–	–	–	–	5	–
Total liabilities	**448**	**241**	**–**	**485**	**–**	**(616)**	**18**	**–**	**576**	**(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 – Continued:

	For the six months ended June 30, 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	Acquisi -tions	Sales	Disposi -tions	Transfer to level 3(3)	Transfers from Level 3(3)	Fair value as of June 30, 2022	Unrealized gains (losses) with respect to instruments held as of June 30, 2022
Assets										
Securities available for sale										
Bonds:										
Of foreign financial institutions	26	2	–	–	(3)	–	53	(6)	72	2
Of others in Israel	19	3	2	–	–	(2)	41	–	63	4
Of others overseas	12	–	–	–	–	(9)	–	–	3	–
Shares not held for trading	15	2	–	6	–	–	–	–	23	(1)
Assets with respect to derivatives(2)										
Interest contracts:										
NIS / CPI	39	8	–	4	–	(15)	15	–	51	26
Other	78	(78)	–	35	–	(1)	–	–	34	12
Currency contracts	718	493	–	1,560	–	(947)	–	(3)	1,821	1,594
Contracts for shares	423	8	–	29	–	(299)	–	–	161	–
Commodities and other contracts	2	–	–	–	–	–	–	–	2	–
Other	7	2	–	–	–	–	–	–	9	–
Total assets	**1,339**	**440**	**2**	**1,634**	**(3)**	**(1,273)**	**109**	**(9)**	**2,239**	**1,637**
Liabilities										
Liabilities with respect to derivatives(2)										
Interest contracts:										
NIS / CPI	46	49	–	5	–	(21)	15	–	94	(43)
Other	117	(39)	–	3	–	(2)	–	–	79	(63)
Currency contracts	665	733	–	883	–	(1,047)	–	–	1,234	(788)
Contracts for shares	12	34	–	130	–	(14)	–	–	162	–
Other	–	9	–	–	–	–	–	–	9	–
Total liabilities	**840**	**786**	**–**	**1,021**	**–**	**(1,084)**	**15**	**–**	**1,578**	**(894)**

(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	–
Commodities and other contracts	–	–	–	–	–	–	–	–	–	–
Other	–	10	–	–	–	–	(3)	–	7	–
Total liabilities	**840**	**549**	**–**	**1,312**	**–**	**(2,284)**	**31**	**–**	**448**	**(167)**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed. Transfers from Level 3 result from the opposite situation.

Note 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 June 30, 2023	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	25	Quote from counter-party to the transaction			
Securities available for sale					
Bonds of others in Israel	2	NAV (Net Asset Value) model	Price	13.30	13.30
Bonds of foreign others	1	Cash flows discounting	Price	1.31-62.10	12.3
Assets with respect to derivative instruments:					
NIS / CPI	15	Cash flows discounting	Inflationary expectations	2.91%-2.82%	2.89%
Contracts for shares	2	Options pricing model	Standard deviation per share	122.51%-37.00%	57.73%
Other	517	Cash flows discounting	Counter-party credit quality	3.10%-0.30%	2.10%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	59	Cash flows discounting	Inflationary expectations	2.91%-2.82%	2.85%
Other	517	Cash flows discounting	Counter-party credit quality	3.60%-0.30%	1.82%

	Fair value as of June 30, 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	3	Cash flows discounting	Price	5.60-78.20	29.75
	10	NAV (Net Asset Value) model	Price	63.5	63.5
Bonds of foreign others	3	Cash flows discounting	Price	15.00-72.50	24.25
Securities held for trading					
Bonds of others in Israel	1	Cash flows discounting	Price	2.28	2.28
Assets with respect to derivative instruments:					
NIS / CPI	19	Cash flows discounting	Inflationary expectations	3.31%-0.17%	3.01%
Foreign currency	13	Cash flows discounting	Counter-party credit quality	0.79%	0.79%
Other	2,046	Cash flows discounting	Counter-party credit quality	2.60%-0.30%	1.91%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	72	Cash flows discounting	Inflationary expectations	3.31% - 2.04%	2.54%
Other	1,506	Cash flows discounting	Counter-party credit quality	3.60%-0.30%	1.75%

	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	2.72%-2.36%	2.61%
Other	393	Cash flows discounting	Counter-party credit quality	3.10%-0.30%	2.19%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	60	Cash flows discounting	Inflationary expectations	2.72%-2.36%	2.55%
Other	388	Cash flows discounting	Counter-party credit quality	3.60%-0.30%	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. Election of fair value option

Should the Bank elect the fair value option, changes to fair value of investments in certain bonds would be recorded to profit and loss, with bonds classified under the portfolio held for trading, although they had not been purchased for this purpose.

The election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of June 30, 2023, June 30, 2022 and December 31, 2022, the Bank did not select the fair value option.

Note 16 – Other matters

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, 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 seventeen key Bank employees and up to seventeen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 141,955 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D – up to 903,975 options D to be awarded to up to sixty-seven managers employed by the Bank subject to individual employment contracts and up to thirty-one other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 231,380 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E – Up to 1,512,950 options E to be awarded to up to two hundred and sixty-three managers employed by the Bank subject to collective bargaining agreements, and to up to twenty-one managers at Bank subsidiaries, exercisable for up to 387,252 Bank ordinary shares of NIS 0.1 par value each.

The number of 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 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.

All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.

An offeree's eligibility for options pursuant to 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.

Moreover, eligibility for options shall be determined based on the following criteria, as set forth in the Outline:

- Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and based on a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer, all as 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.

Note 16 – Other matters – Continued

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and the core deposit ratio.

The 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 (ASC718 "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.

Note 17 – Events after the balance sheet date

On August 14, 2023, the Bank’s Board of Directors resolved to distribute dividends amounting to NIS 489.3 million, or 35% of earnings in the second quarter of 2023, in accordance with the Bank’s dividend policy, so as to allow for future growth of the Bank as well as noting the uncertainty with regard to macro-economic developments.

The dividends are 1901.01% of issued share capital, i.e. NIS 1.901 per NIS 0.1 par value share. The effective date for dividends payment is August 22, 2023 and the payment date is August 29, 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 third quarter of 2023.

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 half of 2023, the Bank Board of Directors held 9 plenary meetings. Furthermore, in this quarter 28 meetings of Board committees and 4 Board member workshops took place.

In the first half of 2023 through the issue date of the financial statements, there were no changes in composition of the Board of Directors.

Changes in the first half of 2023 through publication of these financial statements are as follows:

- Mr. Eli Alroy started his term in office as member of the Credit Committee on January 1, 2023.

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 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.

Payment Services and Payment Initiation Regulation Law, 2023

On May 22, 2023, the Knesset, as part of the Economic Plan Law (Legislation amendments for implementation of economic policy for 2023 and 2024 budget years), 2023, also enacted the Payment Services and Payment Initiation Regulation Law, 2023.

According to this Law, the Bank would be required to support basic and advanced payment initiation and online direct debit initiation through third parties ("Initiation Service Providers") from payment accounts of Bank customers. The Bank is required to provide Initiation Service Providers with access to payment accounts of its customers, free of charge; moreover, the Bank may not make provision of such access contingent on signing an agreement between the Bank and the Initiation Service Providers.

Furthermore, according to the Law, the Bank would be required to support mandatory connectivity between payment applications with extensive operations, which provide person-to-person fund transfer services, and other payment accounts (such as current accounts managed by banks), all in a simple, convenient manner based on identification such as cell phone number.

The effective start date for this Law is June 6, 2024 (one year from publication thereof). The Bank is preparing for implementation of the Law.

Implementation of the Law is not expected to materially impact the Bank's financial statements.

Supervisor of Banks

Circulars and public reporting directives

Open Banking standard implementation in Israel

On February 24, 2020, the Bank of Israel issued a circular containing Proper Conduct of Banking Business Directive 368 "Implementation of Open Banking Standard". The circular describes the evolution of open banking around the world and the standards created, and elaborates legislation in Israel that has resulted in the Supervisor of Banks promoting the open banking project and issuing a directive in this regard. The directive includes instruction for implementation of the open banking standard, rules for quality of service and customer consent, and guidelines for information architecture and security. The directive applies to banks and credit card companies operating in Israel, with respect to individual accounts. The directive further stipulates instruction with respect to corporate governance, including responsibilities of the Board of Directors and senior management in setting policy, appropriate resource allocation and supervision of implementation of the management framework for open banking. The effective start date of this directive is December 31, 2020, except for information about debit cards which is effective as from July 1, 2021 and information about credit, deposits and securities which is effective as from December 31, 2021.

On April 7, 2020, the Bank of Israel issued a circular in view of developments in the Corona Virus outbreak, with revised effective start dates for Proper Conduct of Banking Business Directive 368. The effective start date of this directive was revised to March 31, 2021; the effective start date for information about debit cards was revised to October 10, 2021 and the effective start date for information about credit, deposits and securities was revised to March 31, 2022.

On April 5, 2021, the Bank of Israel issued a circular which delays by a few months the planned implementation, in order to allow for proper reference to various issues raised during preparations for implementation, due to the wish to establish the open banking system. Stage 2 was delayed to January 31, 2022 (from October 10, 2021) and stage 3 was delayed to May 31, 2022 (from March 31, 2022). This delay should allow the banking system to stabilize the services in the system, so that system availability would be robust and its services would provide a response for market demand.

On January 17, 2022, the Bank of Israel issued a circular regarding "Implementation of open banking standard in Israel", which updates the effective start dates of mandatory provision of access to information about customer activity in debit cards, and mandatory provision of access to the customer's checking account for payment initiation, as stipulated in the directive. The schedules for providing access to information about borrowing and deposits were aligned with those set forth in the Law. The effective start date for information about debit cards and payment initiation was revised to March 31, 2022, and the effective start date for information about credit, savings and deposits was revised to October 31, 2022.

On February 23, 2022, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending the directive to align it with provisions set forth in the Financial Information Service Law. The effective start date of the directive is the same as that of the Law. As from June 30, 2023, Chapter H of Proper Conduct of Banking

Business Directive 367 would no longer apply to individual accounts, and would continue to apply for information summary services for corporate customers through December 31, 2024.

On May 15, 2022, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending Directive 368 and stipulating provisions with regard to prohibition of receiving benefits and adding Section 57b to the Directive, in conformity with the Supervisor's authority pursuant to the Financial Information Service Law, as well as amendments to the actual standard. The effective start date of Section 57b of the Directive is on the effective start date of the Financial Information Service Law (as of the date of this publication: June 14, 2022).

On July 24, 2022, the Bank of Israel issued a letter regarding implementation of the Financial Information Services Law and the Open Banking standard. The circular emphasizes that banking corporations are required to act as information sources, and in future - as financial information service providers, and to ensure that work processes include at least a policy on service level, implementation of controls for availability and response times, information integrity and quality, implementation of regulatory directives by an internal committee dedicated to this matter and conducting internal audit processes. The letter seeks to review the qualification processes and to ensure that any malfunctions with regard to service or availability are addressed within a reasonable time frame. The Bank is preparing to respond to and implement the directives in this letter.

On January 22, 2023, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending Directive 368 and stipulating provisions regarding, inter alia, provision of access to information about securities, service level, use of certificates and approval of operations as payment initiator. The effective start date of the amendments in the circular is the issue date of the circular, except for presentation of information about securities, which is June 14, 2023, and except for amendments regarding handling of malfunctions, response times and service level, which is June 30, 2023.

On February 9, 2023, the Bank of Israel issued a circular concerning reporting of open banking activity, amending Reporting Directive 868 "Reporting of open banking activity", so as to allow the Supervisor of Banks to monitor the nature and scope of open banking activity in Israel. The effective start date for this reporting directive is January 1, 2023, with relief as set forth in the circular.

The Bank is implementing the directives. Application of this directive has no material impact on the Bank's financial statements.

Risk Management

On February 26, 2023, the Bank of Israel issued a circular regarding risk management (Amendment to Proper Conduct of Banking Business Directive 310). This amendment concerns the involvement of banking corporations and counter parties in activities related to cryptographic assets; the approval process for new products now includes mandatory review of compliance of the new product with applicable requirements of 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.

Interest risk in bank portfolio

On May 24, 2023, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 333 concerning "Interest risk in bank portfolio". The updated directive adopts the current document on interest risk in bank portfolio issued by the Basel Committee on Bank Supervision. The circular includes, *inter alia*, the following updates:

- Guidelines for interest risk management – The guidelines listed in the directive include, *inter alia*, corporate governance arrangements for risk management and risk monitoring, risk delineation, risk measurement both in terms of economic value and in terms of earnings, use of diverse scenarios, including stress tests, strict handling of instruments with behavioral options and of assumptions used in modelling thereof for risk estimation, management of risk in models for management of interest risk in bank portfolio, reporting to the Board of Directors and to senior management, as well as proper handling of risk under Pillar 2.
- The standard framework – The directive includes certain provisions with regard to measurement of interest risk in bank portfolio based on economic value of capital, and in particular with regard to measurement of cash flows.
- Calculation of interest shocks – The directive includes provisions for calculation of standard interest shocks for banks and settlement providers, to be adjusted for standard interest shocks in public disclosure requirements.

The effective start date of this directive is December 31, 2024. The Bank is preparing to implement the directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Effective management of climate-related financial risk

On June 12, 2023, the Bank of Israel issued a circular concerning guidelines for effective management of climate-related financial risk (Proper Conduct of Banking Business Directive 345). The directive stipulates guidelines which banking corporations must adhere to for optimal management of their exposure to climate-related financial risk. The directive requires disclosure of environmental risk to which the Bank is exposed, including climate risk, and description of how such risk is managed, in conformity with Public Reporting Directives.

The effective start date of the directive in this circular is two years after publication thereof. The Bank is preparing to implement the directive. Application of this directive has no material impact on the Bank's financial statements.

Distribution of credit cards issued by issuers who have signed a distribution agreement with a banking corporation

On June 29, 2023, the Bank of Israel issued a circular concerning distribution of credit cards issued by issuers who have signed a distribution agreement with a banking corporation (Proper Conduct of Banking Business Directive 473). Pursuant to provisions of Section 7F of the Banking Law (Customer Service), 1981, the directive stipulates that when a customer contacts a banking corporation seeking to enter into a credit card contract there with, or when a banking corporation contacts a customer proposing such contracting, the banking corporation must distribute the credit cards issued by issuers who have signed a distribution agreement there with. The directive stipulates provisions with regard to credit card distribution processes pursuant to Section 7F of the Law.

The effective start date of the directive is as of the publication date thereof. Any distribution agreements signed prior to the effective start date of the directive would be adjusted by the parties within six months. The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Banking corporation business with related persons

On June 29, 2023, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 312 concerning "Banking corporation business with related persons". The updated directive includes, *inter alia*, the following changes:

- Relief for definition of Related Person for a banking corporation controlled by another banking corporation – In conformity with Section 3(F) of the directive, corporations in which the investment is not material and where the banking corporation has no control thereof, shall be excluded from definition of Related Person.
- CEO and Chairman of the Board of Directors of major investees – The directive stipulates that with regard to Related Person in Section 3(D1) regarding CEO and Chairman of the Board of Directors of major investees, out of all such companies – only companies classified as Subsidiary would be included.
- Committee on transactions with related persons – The updated directive expands the waiver for the committee on transactions with related persons, or the Audit Committee, of mandatory discussion of all transaction types conducted by the banking corporation with companies in the bank group which exclusively provide services to the banking corporation.
- Reporting to the Supervisor – The requirement to submit to the Supervisor a list of Related Persons of the banking corporation, indicating the indebtedness of each Related Person, in conformity with the reporting outline to the Supervisor, has been eliminated.

The effective start date of this circular is as of the publication date thereof. The Bank is applying the circular.

Application of this circular has no material impact on the Bank's financial statements.

Bank's credit rating

On August 1, 2023, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") left the Bank ratings unchanged. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook.

Contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated Aa3.il / Stable outlook.

On July 23, 2023, S&P GLOBAL RATINGS MAALOT LTD (hereinafter: "Maalot") approved the Bank's issuer rating of ilAAA / 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 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, 2023, 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. The rating outlook was changed to Stable. 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 June 30, 2023			For the three months ended June 30, 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	302,781	[(7)]5,213	6.89	280,291	[(7)]3,695	5.27
Outside of Israel	7,367	165	8.96	4,965	69	5.56
Total	**310,148**	**5,378**	**6.94**	**285,256**	**3,764**	**5.28**
Loans to the Government						
In Israel	456	4	3.51	341	1	1.17
Outside of Israel	73	2	10.96	104	1	3.85
Total	**529**	**6**	**4.54**	**445**	**2**	**1.80**
Deposits with banks						
In Israel	3,184	29	3.64	2,153	5	0.93
Outside of Israel	197	2	4.06	482	1	0.83
Total	**3,381**	**31**	**3.67**	**2,635**	**6**	**0.91**
Deposits with central banks						
In Israel	66,596	639	3.84	73,024	70	0.38
Outside of Israel	13,237	179	5.41	10,383	24	0.92
Total	**79,833**	**818**	**4.10**	**83,407**	**94**	**0.45**
Securities borrowed or purchased in resale agreements						
In Israel	51	1	7.84	1,179	1	0.34
Outside of Israel	–	–	–	–	–	–
Total	**51**	**1**	**7.84**	**1,179**	**1**	**0.34**
Bonds held to maturity and available for sale[(4)]						
In Israel	12,786	89	2.78	16,053	90	2.24
Outside of Israel	1,165	16	5.49	950	3	1.26
Total	**13,951**	**105**	**3.01**	**17,003**	**93**	**2.19**
Bonds held for trading[(5)]						
In Israel	7,711	–	–	193	1	2.07
Outside of Israel	–	–	–	–	–	–
Total	**7,711**	**–**	**–**	**193**	**1**	**2.07**
Total interest-bearing assets	**415,604**	**6,339**	**6.10**	**390,118**	**3,961**	**4.06**
Receivables for credit card operations	4,152			4,279		
Other non-interest bearing assets[(6)]	9,905			10,715		
Total assets	**429,661**			**405,112**		
Total interest-bearing assets attributed to overseas operations	**22,039**	**364**	**6.61**	**16,884**	**98**	**2.32**

See footnotes below.

Appendix 1 – Revenue rates and interest expenses of the Bank and subsidiaries thereof[(1)] – Cont.

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets – Continued

	For the six months ended June 30, 2023			For the six months ended June 30, 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	302,088	[(7)]9,949	6.59	274,119	[(7)]6,693	4.88
Outside of Israel	7,057	304	8.62	4,669	121	5.18
Total	**309,145**	**10,253**	**6.63**	**278,788**	**6,814**	**4.89**
Loans to the Government						
In Israel	397	7	3.53	346	3	1.73
Outside of Israel	79	4	10.13	107	3	5.61
Total	**476**	**11**	**4.62**	**453**	**6**	**2.65**
Deposits with banks						
In Israel	3,024	52	3.44	2,100	6	0.57
Outside of Israel	145	2	2.76	339	1	0.59
Total	**3,169**	**54**	**3.41**	**2,439**	**7**	**0.57**
Deposits with central banks						
In Israel	67,362	1,186	3.52	76,228	92	0.24
Outside of Israel	15,365	372	4.84	9,833	28	0.57
Total	**82,727**	**1,558**	**3.77**	**86,061**	**120**	**0.28**
Securities borrowed or purchased in resale agreements						
In Israel	124	3	4.84	1,147	1	0.17
Outside of Israel	–	–	–	–	–	–
Total	**124**	**3**	**4.84**	**1,147**	**1**	**0.17**
Bonds held to maturity and available for sale[(4)]						
In Israel	13,098	189	2.89	15,142	149	1.97
Outside of Israel	1,147	30	5.23	934	5	1.07
Total	**14,245**	**219**	**3.07**	**16,076**	**154**	**1.92**
Bonds held for trading[(5)]						
In Israel	5,828	1	0.03	215	3	2.79
Outside of Israel	–	–	–	–	–	–
Total	**5,828**	**1**	**0.03**	**215**	**3**	**2.79**
Total interest-bearing assets	**415,714**	**12,099**	**5.82**	**385,179**	**7,105**	**3.69**
Receivables for credit card operations	4,206			4,166		
Other non-interest bearing assets[(6)]	8,019			9,285		
Total assets	**427,939**			**398,630**		
Total interest-bearing assets attributed to overseas operations	**23,793**	**712**	**5.98**	**15,882**	**158**	**1.99**

Appendix 1 – Revenue rates and interest expenses of the Bank and subsidiaries thereof(1) – Cont.

Reported amounts (NIS in millions)

A. Average balances and interest rates – liabilities and equity

	For the three months ended June 30, 2023			For the three months ended June 30, 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	31,403	222	2.83	(11)44,753	12	0.11
Term deposits	213,503	2,331	4.37	158,324	854	2.16
Outside of Israel						
On-call	451	–	–	548	–	–
Term deposits	8,944	116	5.19	4,488	6	0.53
Total	**254,301**	**2,669**	**4.20**	**208,113**	**872**	**1.68**
Deposits from the Government						
In Israel	33	1	12.12	52	–	–
Outside of Israel	–	–	–	–	–	–
Total	**33**	**1**	**12.12**	**52**	**–**	**–**
Deposits from banks						
In Israel	7,548	31	1.64	7,025	1	0.06
Outside of Israel	–	–	–	294	–	–
Total	**7,548**	**31**	**1.64**	**7,319**	**1**	**0.05**
Securities loaned or sold in re-purchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Bonds and subordinated notes						
In Israel	34,699	451	5.20	35,280	627	7.11
Outside of Israel	–	–	–	–	–	–
Total	**34,699**	**451**	**5.20**	**35,280**	**627**	**7.11**
Other liabilities						
In Israel	9,101	6	0.26	2,658	8	1.20
Outside of Israel	–	–	–	–	–	–
Total	**9,101**	**6**	**0.26**	**2,658**	**8**	**1.20**
Total interest-bearing liabilities	**305,682**	**3,158**	**4.13**	**253,422**	**1,508**	**2.38**
Non-interest bearing deposits from the public	80,349			110,316(11)		
Payables for credit card transactions	5,463			5,623		
Other non-interest bearing liabilities(8)	10,941			12,757		
Total liabilities	**402,435**			**382,118**		
Total equity instruments	**27,226**			**22,994**		
Total liabilities and equity instruments	**429,661**			**405,112**		
Interest spread			**1.97**			**1.68**
Net return on interest-bearing assets(9)						
In Israel	393,565	2,933	2.98	373,234	2,361	2.53
Outside of Israel	22,039	248	4.50	16,884	92	2.18
Total	**415,604**	**3,181**	**3.06**	**390,118**	**2,453**	**2.52**
Total interest-bearing liabilities attributed to overseas operations	**9,395**	**116**	**4.94**	**5,330**	**6**	**0.45**

Appendix 1 – Revenue rates and interest expenses of the Bank and subsidiaries thereof[(1)] – Cont.

Reported amounts (NIS in millions)

A. Average balances and interest rates – liabilities and equity – Continued

	For the six months ended June 30, 2023			For the six months ended June 30, 2022		
	Average balance[(2)]	Interest expenses (revenues)	Revenue rate	Average balance[(2)]	Interest expenses (revenues)	Revenue rate
			in %			in %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	34,181	435	2.55	[(11)]44,759	26	0.12
Term deposits	208,185	4,247	4.08	154,180	1,426	1.85
Outside of Israel						
On-call	437	–	–	529	–	–
Term deposits	8,004	209	5.22	4,237	9	0.42
Total	**250,807**	**4,891**	**3.90**	**203,705**	**1,461**	**1.43**
Deposits from the Government						
In Israel	54	1	3.70	56	–	–
Outside of Israel	–	–	–	–	–	–
Total	**54**	**1**	**3.70**	**56**	**–**	**–**
Deposits from banks						
In Israel	7,468	57	1.53	6,936	2	0.06
Outside of Israel	–	–	–	147	–	–
Total	**7,468**	**57**	**1.53**	**7,083**	**2**	**0.06**
Securities loaned or sold in re-purchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Bonds and subordinated notes						
In Israel	34,213	817	4.78	35,676	1,037	5.81
Outside of Israel	–	–	–	–	–	–
Total	**34,213**	**817**	**4.78**	**35,676**	**1,037**	**5.81**
Other liabilities						
In Israel	7,742	6	0.15	1,793	8	0.89
Outside of Israel	–	–	–	–	–	–
Total	**7,742**	**6**	**0.15**	**1,793**	**8**	**0.89**
Total interest-bearing liabilities	**300,284**	**5,772**	**3.84**	**248,313**	**2,508**	**2.02**
Non-interest bearing deposits from the public	84,356			[(11)]109,130		
Payables for credit card transactions	5,476			5,461		
Other non-interest bearing liabilities[(8)]	11,187			12,750		
Total liabilities	**401,303**			**375,654**		
Total equity instruments	**26,636**			**22,976**		
Total liabilities and equity instruments	**427,939**			**398,630**		
Interest spread			**1.98**			**1.67**
Net return on interest-bearing assets[(9)]						
In Israel	391,921	5,824	2.97	369,297	4,448	2.41
Outside of Israel	23,793	503	4.23	15,882	149	1.88
Total	**415,714**	**6,327**	**3.04**	**385,179**	**4,597**	**2.39**
Total interest-bearing liabilities attributed to overseas operations	**8,441**	**209**	**4.95**	**4,913**	**9**	**0.37**

Appendix 1 – Revenue rates and interest expenses of the Bank and subsidiaries thereof[(1)] – Cont.

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 June 30, 2023			For the three months ended June 30, 2022		
	Average balance[(2)]	**Interest revenues (expenses)**	**Revenue (expense) rate**	**Average balance[(2)]**	**Interest revenues (expenses)**	**Revenue (expense) rate**
			in %			**in %**
Israeli currency – non-linked						
Total interest-bearing assets	292,754	4,028	5.50	283,764	1,897	2.67
Total interest-bearing liabilities	212,429	(1,774)	(3.34)	[(11)]165,843	(250)	(0.60)
Interest spread			**2.16**			**2.07**
Israeli currency – linked to the CPI						
Total interest-bearing assets	84,290	1,659	7.87	72,260	1,832	10.14
Total interest-bearing liabilities	48,068	(747)	(6.22)	51,121	(1,142)	(8.94)
Interest spread			**1.66**			**1.21**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	16,521	288	6.97	17,210	134	3.11
Total interest-bearing liabilities	35,790	(521)	(5.82)	31,128	(110)	(1.41)
Interest spread			**1.15**			**1.70**
Total – operations in Israel						
Total interest-bearing assets	393,565	5,975	6.07	373,234	3,863	4.14
Total interest-bearing liabilities	296,287	(3,042)	(4.11)	248,092	(1,502)	(2.42)
Interest spread			**1.97**			**1.72**

Appendix 1 – Revenue rates and interest expenses of the Bank and subsidiaries thereof[1] – Cont.

Reported amounts (NIS in millions)

B. Average balances and interest rates – Further information about interest-bearing assets and liabilities attributed to operations in Israel – Continued

	For the six months ended June 30, 2023			For the six months ended June 30, 2022		
	Average balance	Interest revenues (expenses)	Revenue (expense) rate	Average balance	Interest revenues (expenses)	Revenue (expense) rate
			in %			in %
Israeli currency – non-linked						
Total interest-bearing assets	292,407	7,803	5.34	276,337	3,552	2.57
Total interest-bearing liabilities	207,138	(3,230)	(3.12)	[11]161,277	(417)	(0.52)
Interest spread			**2.22**			**2.05**
Israeli currency – linked to the CPI						
Total interest-bearing assets	82,786	3,056	7.38	74,982	3,173	8.46
Total interest-bearing liabilities	47,123	(1,359)	(5.77)	53,862	(1,915)	(7.11)
Interest spread			**1.62**			**1.35**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	16,728	528	6.31	17,978	222	2.47
Total interest-bearing liabilities	37,582	(974)	(5.18)	28,261	(167)	(1.18)
Interest spread			**1.13**			**1.29**
Total – operations in Israel						
Total interest-bearing assets	391,921	11,387	5.81	369,297	6,947	3.76
Total interest-bearing liabilities	291,843	(5,563)	(3.81)	243,400	(2,499)	(2.05)
Interest spread			**2.00**			**1.71**

Appendix 1 – Revenue rates and interest expenses of the Bank and subsidiaries thereof(1) – Cont.

Reported amounts (NIS in millions)

C. Analysis of changes to interest revenues and expenses

	For the three months ended June 30, 2023 – compared to the three months ended June 30, 2022			For the six months ended June 30, 2023 – compared to the six months ended June 30, 2022		
	Increase (decrease) due to change(10)			Increase (decrease) due to change(10)		
	Volume	Price	Net change	Volume	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	387	1,131	1,518	921	2,335	3,256
Outside of Israel	54	42	96	103	80	183
Total	**441**	**1,173**	**1,614**	**1,024**	**2,415**	**3,439**
Other interest-bearing assets						
In Israel	(18)	612	594	(86)	1,270	1,184
Outside of Israel	37	133	170	135	236	371
Total	**19**	**745**	**764**	**49**	**1,506**	**1,555**
Total interest revenues	**460**	**1,918**	**2,378**	**1,073**	**3,921**	**4,994**
Interest-bearing liabilities						
Deposits from the public						
In Israel	436	1,251	1,687	839	2,391	3,230
Outside of Israel	54	56	110	91	109	200
Total	**490**	**1,307**	**1,797**	**930**	**2,500**	**3,430**
Other interest-bearing liabilities						
In Israel	61	(208)	(147)	89	(255)	(166)
Outside of Israel	–	–	–	–	–	–
Total	**61**	**(208)**	**(147)**	**89**	**(255)**	**(166)**
Total interest expenses	**551**	**1,099**	**1,650**	**1,019**	**2,245**	**3,264**

(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 (to) the average balance of bonds available for sale, for the three-month periods ended June 30, 2023 and June 30, 2022, and for the six-month periods ended June 30, 2023 and June 30, 2022, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of bonds available for sale, included in equity under Cumulative Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (572) million, NIS (316) million, NIS (606) million and NIS (218) million, respectively.

(5) From the average balance of bonds held for trading, for the three-month periods ended June 30, 2023 and June 30, 2022, and for the six-month periods ended June 30, 2023 and June 30, 2022, we deducted (added) the average balance of unrealized gains from adjustment to fair value of bonds held for trading amounting to NIS (1) million, NIS 10 million, NIS (7) million and NIS 5 million, respectively.

(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.

(7) Commissions amounting to NIS 94 million, NIS 169 million, NIS 207 million and NIS 388 million were included in interest revenues for the three-month periods ended June 30, 2023 and June 30, 2022 and for the six-month periods ended June 30, 2023 and June 30, 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.

(11) Reclassified.

Glossary and index of terms included 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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