RISK MANAGEMENT REPORT 3 AS OF 30.09.2023

Together

All the way

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

Bank Mizrahi Tefahot

Risks Report for the third quarter of 2023

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

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

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

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

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Risks Report

Early on October 7, the sound of air raid sirens and missiles broke the peaceful atmosphere on the Sabbath and Simchat Tora, signaling the start of a murderous surprise attack launched from the Gaza Strip into Israel. Thousands of terrorists raided towns and military bases close to the Gaza Strip border, with but one desire: to carry out an unprecedentedly cruel spree of murder, rape and kidnapping of civilians and soldiers. In response, the Government declared a State of War (Iron Swords), with the primary objectives of freeing those kidnapped and bringing them back home, and elimination of the Hamas rule over Gaza. Concurrently, military escalation started on the Northern border as well, and the IDF is prepared to anticipate any developments on this front, as well. Bank Mizrahi Tefahot bows in respect to the families of those murdered and of IDF fallen soldiers in the war, praying for the safe return home of all those kidnapped, and sending wishes of speedy recovery to all wounded civilians and soldiers. Just like many civilians, NGOs, organizations and companies, the Bank, too, immediately took part in the national endeavor: in direct support for impacted populations, primarily in the Gaza border area – including through adoption of Sderot and Kfar Aza, and by taking initiative on banking relief, designed to support and to help Bank customers, who were directly or indirectly affected by these events, to overcome the challenging period.
At this stage, it is difficult to assess how long the war would last and how it may develop, as well as implications thereof on economic activity.
For more information about implications of these events on risk management, see below in chapters "General information regarding management of various risks and the risk profile", "Major and emerging risks" and "General mapping of risk factors and their impact".
This risks report includes additional information to the condensed consolidated financial statements of Bank Mizrahi Tefahot Ltd. and its subsidiaries as of September 30, 2023. The condensed financial statements and additional information to the condensed financial statements, including the Report of the Board of Directors and Management, this Risks Report and other supervisory disclosures have been approved for publication by the Bank's Board of Directors at its meeting held on November 27, 2023.

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

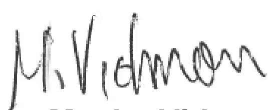
In conformity with the Supervisor of Banks' public reporting directives, the quarterly format of the risks report is limited and focused on qualitative and quantitative disclosures whose analysis and presentation on quarterly basis is material for readers of the report.
If needed, this report should be read in conjunction with the 2022 Risks Report.

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

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

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

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



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

Approval date of the financial statements and risks report:
Ramat Gan, November 27, 2023

Forward-looking information

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

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

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

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

Key supervisory ratios and overview of risk management and risk assets

Key supervisory ratios – key data

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

	2023			2022			
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Key supervisory and financial ratios							
Available capital							
Tier I equity[1]	27,504	26,908	26,001	25,072	24,332	23,567	22,650
Tier I capital before effect of transitional provisions	27,324	26,724	25,813	24,791	24,047	23,277	22,355
Total capital	35,395	35,390	34,263	33,087	32,186	31,555	30,314
Total capital before effect of transitional provisions	35,353	35,345	34,213	32,828	31,923	31,287	30,097
Risk weighted assets							
Total risk weighted assets (RWA)	271,767	262,909	256,874	252,251	245,282	235,783	226,301
Capital adequacy ratio (in %)							
Tier I capital ratio(1)	10.12	10.23	10.12	9.94	9.92	10.00	10.01
Tier I capital ratio before effect of transitional provisions	10.05	10.16	10.03	9.78	9.75	9.85	9.86
Total capital ratio	13.02	13.46	13.34	13.12	13.12	13.38	13.40
Total capital ratio before effect of transitional provisions	13.00	13.43	13.29	12.95	12.94	13.25	13.28
Tier I capital ratio required by Supervisor of Banks[2]	9.60	9.60	9.60	9.60	9.61	9.62	9.61
Available Tier I capital ratio, beyond what is required by the Supervisor of Banks[2]	0.52	0.63	0.52	0.34	0.31	0.38	0.40
Leverage ratio[3]							
Total exposure	476,015	469,461	469,925	463,010	462,856	450,369	426,244
Leverage ratio (in %)	5.78	5.73	5.53	5.42	5.26	5.23	5.31
Leverage ratio before effect of transitional provisions (in %)	5.74	5.69	5.49	5.35	5.20	5.17	5.24
Liquidity coverage ratio[4]							
Total high quality liquid assets	80,986	80,940	83,031	84,000	84,602	84,379	85,927
Total outgoing cash flows, net	58,601	63,214	65,864	71,431	70,909	70,431	71,724
Liquidity coverage ratio (in %)	138	128	126	118	119	120	120
Net stable funding ratio[5]							
Total available stable funding	276,450	282,362	275,561	277,605	285,733	274,230	258,878
Total required stable funding	244,595	246,136	243,380	241,884	246,196	240,140	223,862
Net stable funding ratio (in %)	113	115	113	115	116	114	116
Performance benchmarks							
Net profit return on equity[6][7]	16.8	22.0	22.4	18.5	20.8	19.4	[7]21.9
Net profit return on risk assets[6][7]	1.64	2.15	2.15	1.92	1.96	1.82	2.07
Deposits from the public to loans to the public, net	108.5	108.9	111.6	112.0	113.6	109.9	110.5
Key credit quality benchmarks							
Ratio of balance of provision for credit losses to total loans to the public	1.19	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	0.99	0.90	0.88	0.87	0.91	0.94	1.13
Expenses with respect to credit losses to loans to the public, net for the period[7]	0.86	0.31	0.29	0.25	0.20	0.14	0.11
Of which: With respect to group provision	0.76	0.22	0.18	0.17	0.14	0.08	0.03
Of which: With respect to commercial loans other than residential mortgages	1.74	0.78	0.65	0.65	0.43	0.25	0.26
Of which: with respect to residential mortgages	0.34	0.04	0.08	0.02	0.07	0.08	0.03
Ratio of net accounting write-offs to average loans to the public[7]	0.04	0.12	0.07	0.22	0.05	0.06	0.03

	Nine months		All of
	2023	**2022**	**2022**
Performance benchmarks			
Net profit return on equity[6][7]	20.3	[8]20.6	[8]20.1
Net profit return on risk assets[6][7]	1.97	1.95	1.91
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period[7]	0.48	0.15	0.17
Of which: With respect to group provision	0.38	0.09	0.11
Of which: With respect to commercial loans other than residential mortgages	1.04	0.30	0.39
Of which: with respect to residential mortgages	0.15	0.06	0.05
Ratio of net accounting write-offs to average loans to the public[7]	0.08	0.05	0.09

Financial ratios indicate as follows:

- Net profit return on equity in the first nine months of the year was 20.3%, primarily due to increase in activity volume and to impact of higher interest and inflation.
- The ratio of Tier I capital to risk components increased to 10.12%. The minimum ratio required of the Bank is 9.60%.

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

(1) The Bank has no capital instruments included in "Additional Tier I capital", so that total Tier I capital equals total Tier I equity.
(2) Including a capital requirement at 1% of the residential mortgage balance as of the date of the financial statements.
(3) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218.
(4) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.
(5) Net stable funding ratio – a liquidity ratio stipulated by the Supervisor of Banks, in conformity with recommendations of the Basel Committee, designed to maintain a sustainable financing structure over time, in addition to the liquidity coverage ratio. Calculated based on total net stable funding required for 12 months, derived from all Bank uses, to total net stable funding available for 12 months, calculated for all Bank sources.
(6) Net profit attributable to shareholders of the Bank.
(7) Annualized.
(8) Excluding effect of capital gain, net from sale of assets, net profit return on equity in 2022 was 19.0%, in the first nine months of 2022: 18.9% and in the first quarter of 2022: 16.6%.

Bank approach to risk management

General information regarding management of various risks and the risk profile

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

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

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

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

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

Effects of the war

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

Concurrently, the Bank takes part in the national endeavor and has announced the allocation of funds for charitable donations and assistance to civilians affected by the war, and has launched programs to provide relief to Bank customers, with emphasis on customers resident in war-affected regions, so as to help them get through this war period and its economic implications.

In view of the war started on October 7, 2023, and given the declaration of a Special Homeland Situation nation-wide declared by state entities, the Bank declared a State of Emergency and activated its emergency plans for the war scenario and its emergency management and reporting frameworks. The Bank maintains availability and continuity of essential services to customers in as much as possible, in conformity with restrictions, and acts to create appropriate alternatives for service provision, providing relief in service provision in conformity with guidelines issued by the Supervisor of Banks. The Bank has extended work from home for essential employees, and has elaborated the relevant operating procedures and processes.

As for Group-level control, in this quarter, too, the Bank continued to maintain constant contact with business continuity units of the Group and its overseas branches. Due to this declaration of a Special Homeland Situation, the Bank enhanced

[1] As from the second quarter of 2023, regulatory business risk is presented separately from strategic business risk.

constant contact with Group subsidiaries and monitoring of implementation of the directives and preparations under the war scenario.

Since October 8, 2023, the Bank has raised its state of alert for business continuity, has activated the business continuity program, and has convened regular emergency forums so as to ensure business continuity at the Bank and service provision to its customers. In this regard, the Bank operates a situation room, headed by the Business Continuity Manager, which is convened frequently. The Bank also acts to enhance employee and customer security at Bank headquarter locations and branches, and to further provide cash services and cash transportation on regular basis across the country, in line with customer needs.

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

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

The Bank of Israel issued a range of relief measures and war-time adjustments in Proper Conduct of Banking Business Directive 251 (Interim Directive) for addressing the impact of this war. Furthermore, the Government has established funds to assist small businesses. The Bank applies the relief and directives as instructed by the Bank of Israel, and has even voluntarily expanded these benefits and acts with the entire banking system to support and to provide an appropriate business solution for its customers in various area, and to support households and businesses as they go through this period. This is done with constant monitoring and review of implications of these activities for risk management.

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. The most recent systemic stress scenario was submitted by banks in March 2023, calculated based on data for end of 2022. The 2022 review by the Supervisor of Banks, published in the second quarter of 2023. Results of the system-wide uniform stress scenario have been published. For more information about the scenario outline and outcome at the system level and at Bank level, see the Risks Report for the second quarter of 2023.

Major and emerging risks

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

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

Prior to this war, there was uncertainty with regard to the economy due to macro-economic conditions and Government plans to promote changes to the judicial system and the public disagreement with regard to this move. The war has increased economic uncertainty, and consequently affects the Bank's risk assessment and risk profile as set forth below in chapter "Developments regarding risk factors during the reported period".

On October 19, 2023, Moody's rating agency announced it was placing Israel's credit rating under rating watch negative. One week later, the agency announced it was considering lowering the short-term and long-term ratings of the top five banks in Israel, due to concern about impact of the war on the Israeli economy. On November 20, 2023, Moody's issued the annual report, noting that it was maintaining Israel's credit rating at A1 / Stable outlook under negative watch, so as to review risk associated with the war and its implications for the economy (in April 2023, Moody's reduced the rating outlook from Positive to Stable, due to implications of the judicial reform).

On October 17, 2023, Fitch rating agency announced that it was placing Israel's credit rating (currently at A+) under rating watch negative, due to change in perception of the geo-political risk arising from the war. This announcement means that the agency intends to frequently monitor security developments in the region, which may result in negative rating action within the next six months, in case of significant deterioration in the security situation. Alternatively, in absence of such deterioration, the rating would be removed from the rating watch negative. On October 20, 2023, the agency further announced that due to placing Israel's credit rating under rating watch negative, it would be placing the long-term rating (IDR) of the top five banks in the system under rating watch negative (RWN).

On October 24, 2023, S&P rating agency announced that it was lowering Israel's credit rating outlook from Stable to Negative. S&P maintains the highest rating of the three agencies, at AA-. According to S&P, the credit rating may be lowered should the military conflict be substantially expanded. Consequently, the Bank's rating was also placed on rating watch negative.

Strategic business risk – is the risk, in real time or in future, to Bank profits, capital, reputation or status, which may arise from erroneous business decisions, improper deployment of decisions by the Bank or inappropriate alignment of the Bank to changes in the business environment in which it operates. The Bank is preparing for these changes by, inter alia, adapting the banking production functions through, inter alia, increased investment in technology, so as to maintain the Bank's position as an advanced, human bank. This is material risk requiring risk management measures to be applied, assessment and early identification of events which may preclude implementation of the strategy.

On April 26, 2021, the Bank's Board of Directors approved a five-year strategic plan for 2021-2025 based, inter alia, on positioning the Bank as a key player in business banking, continued leadership position in the mortgage market, establishing the Bank Group's leadership position among households, providing personal, human banking services supported by advanced digital technology, including optimal combination of human and digital channels, with human service by expert bankers, including in digital, in accordance with customer choice and needs, as well as offering personalized value propositions across all channels, which are customized for customer needs, adapting the operating model to future challenges and further improvement in operating efficiency and leveraging the Union Bank merger to generate operating and business synergies and to realize economies of scale. For more information see Immediate Report dated April 27, 2021 (reference: 2021-01-071448). Bank results indicate that the Bank has surpassed the business objectives set in the strategic plan.

Strategic business risk incorporates all of the Bank's business operations, also reflecting the risk in the Bank's business environment, including development of material external factors and events which may affect the Bank's strategic business risk and implementation of its strategic plan.

At this stage, the potential implications of the war have yet to modify the principles underlying the Bank's business model, and therefore the risk level remains un-changed. However, there is significant uncertainty regarding the duration, scope and impact of the war, and this may have significant implications for the Israeli economy and, consequently, for the entire banking system.

Regulatory business risk – This risk, currently assessed to be Medium-High, refers to legislation, including legislation in process, in core banking areas, as well as new regulation and regulatory expectations of regulatory entities, whether in process or completed, which may potentially impact core banking operations. In the third quarter of 2023, regulatory business risk remained un-changed, after being increased in the previous quarter, thus it also reflects potential business implications for banking operations due to the war.

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

The security situation is still indicative of further escalation, which impacts local economic activity, as well as the macro-economic environment. In September, the Consumer Price Index decreased by 0.1%, despite expectations of a slight increase. Inflation for the trailing 12 months decreased to 3.8%. In October, the Bank of Israel interest rate remained unchanged at 4.75%. On the foreign currency market, the Bank of Israel is taking action to moderate market volatility.

Technological risk – Technological risk is a significant risk, affected by accelerated evolution in technology and digital domains and by the need to provide response to changing customer needs, legacy core systems, multitude of banking regulatory requirements and the need to implement technological tools within a short timeframe. The Technology Division operates fully in support of normal Bank operations and in providing a response to current and future technology requirements for such operations.

As part of bolstering its technology infrastructure, the Bank invests heavily in technology systems, in order to address the evolving challenges in the business environment, while maintaining its differentiation as an advanced, human bank. The Bank is developing advanced tools for analyzing data and extracting information from data, in order to improve its measuring capacity and decision making, both from business marketing aspects and from risk management aspects.

At the outset of this war, the Bank focused on maintaining a state of readiness to provide a complete technology resolution for the Bank as a whole, including readiness for deterioration in the security situation, concurrently with development of

technology solutions regarding consumer aspects required in emergency, including implementation of benefits provided to assist Bank customers at this time.

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

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

The Bank continues to reinforce the defense mechanisms applied 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.

The Bank's information and cyber security team operates fully and continuously throughout the year, regularly improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face. In view of the war, the Bank significantly raised its alert, vigilance and readiness in order to identify and avert any cyber events. The Bank also acts to prevent fraud, by bolstering its monitoring activity to identify any suspect activity in customer accounts.

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

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

In view of effects of the war, the Bank increased its management focus and monitoring with regard to fairness to customers, in particular for accounts of customers involved in the war or affected by implications thereof. The Bank took action to implement diverse relief measures in order to identify customers with no ID documents, while hedging the potential risk due to such activity, and to identify accounts of those affected by the war, in order to avoid misuse of such accounts by unauthorized persons.

Environmental risk and climate risk

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

Climate risk – risk due to increased frequency and intensity of weather events due to climate change. The Bank faces risk of financial loss or impact to its reputation, due to materialization of physical events, processes or adjustment to transition risk due to climate change. Climate risk includes transition risk, which is regarded as long-term risk. Such risk arises from the accommodation process to a low-carbon economy (such as: transition to renewable energy sources, carbon taxation, improved energy efficiency and so forth), as well as physical risk that may materialize due to direct impact of extreme events, such as fire, flooding, and due to prolonged change that may result from higher sea levels and temperature changes that may affect the ecological system, desertification processes and so forth.

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

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

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

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

General mapping of risk factors and their impact

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

The Bank has in place risk identification and measurement processes using diverse methodologies to estimate Bank risk and exposure to various risks, in the normal course of business and under stress scenarios. The Bank applies quantitative measurement methods (models, benchmarks, indicators, sensitivity analysis, scenarios and so forth), as well as qualitative ones (expert assessment and surveys).
The table below lists the risk factors, executives appointed as Risk Owner for each one and management assessment of the impact of each risk factor, on a scale of five risk levels: Low, Low-medium, Medium, Medium, Medium-High and High.

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

In view of the significant economic uncertainty due to the war, and the higher economic systemic risk, the Bank has conducted a risk assessment so as to reflect the currently known effects of the war and its potential implications. The Bank also mapped the risk factors and their potential impact on various risk levels.

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk. The risk assessments were reviewed after end of the third quarter, and include forward-looking assessment of the potential implications of the war for the Bank:

Risk factor	Effect of the risk factor	Risk owner
Overall effect of credit risks[1]	Medium	Manager, Corporate Division
Risk with respect to borrower and collateral quality	Medium-High	
Risk from industry concentration[1]	Low-Medium	
Risk with respect to concentration of borrowers / borrower groups	Low	
Risk with respect to mortgage portfolio	Low-Medium	
Overall effect of market risks[2]	Low-Medium	Manager, Financial Division
Interest risk	Medium	
Inflation risk	Low-Medium	
Foreign currency risk	Low	
Liquidity risk	Low-Medium	Manager, Financial Division
Overall effect of operational risk	Medium	Manager, Risks 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
Strategic business risk [5]	Low-Medium	President & CEO
Regulatory business risk	Medium-High	President & CEO

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

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

The risk profile for the third quarter of 2023, prior to the war, which is based on risk values at end of the third quarter of 2023, remained un-changed.

The assessment of other risks, prior to the war, reflects uncertainty which about the economy, with regard to the global geo-political effects, the state of the global and local economies and changes to the macro-economic environment, as well as the high interest environment and implications thereof.

The Bank's current risk assessment reflects the significant economic uncertainty due to effects of the war started after the end of the third quarter. Note that no significant indications have been identified to date, which support the actual increase in risk. Nevertheless, from a forward-looking viewpoint, the Bank slightly increased its risk assessment with regard to the second quarter of 2023 and end of 2022, in particular with regard to borrower and collateral quality risk, which reflects concern about higher business credit risk.

All other risk levels remained un-changed. The Bank currently is of the opinion that they are appropriate, even given the potential effects of systemic events. Note that significant indications of increased level of such risks have yet to be identified.

The Bank continues to monitor developments and to conduct increased monitoring of the effects of the war and derivatives thereof on economic activity and, consequently, on Bank activity and various risk aspects.

We emphasize that strategic business risk remained un-changed, due to the fact that at the strategic level, there has been no change to the Bank's business model based on the current strategic plan outline, and the Bank is in line with its business targets. However, strategic business risk incorporates all of the Bank's business operations, also reflecting the risk in the Bank's business environment, and the Bank is reviewing the increase in geo-political risk and the macro-economic and business implications that may materialize should the war last longer and/or should it expand to other regions.

The Bank has sufficient safety margins for minimum capital and leverage ratios, even given the increase in systemic risk.

Regulatory business risk is assessed to be Medium-High. This risk 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. As noted above, in the third quarter of 2023, regulatory business risk remained un-changed, and also reflects potential business implications for banking operations due to the war.

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

Specifically, the Bank's assessment is that borrower and collateral quality risk has increased from Medium to Medium-High. This increase is due to growing concern about economic deterioration due to the war and its potential effects on business borrowers. The effects of the war have yet to manifest and there were no material changes to risk benchmarks. The assessment is that due to the war and its effects, the potential for impact to business activity has increased overall, and in specific risk concentrations in particular. These risk concentrations include borrowers and businesses in border regions, activity in sectors identified as affected by the war, and borrowers and businesses that were at high risk even prior to the war, who are more sensitive and vulnerable to external events.

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 15.3% (compared to 15.2% in the second quarter of 2023 and to 15.3% at end of 2022). Due to the war, there is concern about increased risk in the construction and real estate sector, due to slower progress of construction due to shortage of workers, which may cause delays in apartment delivery and decrease in residential construction starts. There is also concern about decrease in apartment sales pace and in collection of sales proceeds. However, compared to the first days of the war, it would appear that normal operations are gradually being resumed. The Bank monitors the effects of changes on Bank operations.

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

Total payment deferment for business segment customers: As of November 24, 2023, total debt amounted to NIS 3.3 billion, or 3.5% of the business loan portfolio.

Total payment deferment for individual segment customers: As of November 24, 2023, total debt amounted to NIS 743 million, or 2.6% of the individual loan portfolio.
The risk level in the mortgage portfolio prior to the war was Low-Medium, reflecting the potential for cumulative effects of higher interest rates and high inflation on borrower repayment capacity. The uncertainty due to the war has kept the current risk level un-changed. Note that during COVID, which saw extensive mortgage deferment, in actual fact, it turned out that upon the economy resuming normal activity, the risk potential in the mortgage portfolio did not materialize. Note that risk benchmarks throughout the reported period do not currently indicate any deterioration or material change in risk level.

Total payment deferment for mortgage customers: As of November 24, 2023, total debt amounted to NIS 19.5 billion, or 9.5% of the residential mortgage portfolio.

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.

In the third quarter of 2023, the Bank increased provisions for credit losses. The increase is mostly due to group-based provision for credit losses, recognized so as to reflect the increase in credit risk in the market due to the war. The increase in provision over the year was also 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.
For more information see chapter "Policies and critical accounting estimates" on the Report of the Board of Directors and Management for the third quarter of 2023.

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

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. In October, the Bank of Israel interest rate remained unchanged at 4.75%. Risk values remain high, and are primarily affected by changes in interest rate curves, which have seen increased volatility.

Liquidity risk remained low-medium. Since the war started, and due to the security situation in Israel, the Bank's alert level with regard to liquidity increased, although there was no material change to relevant indicators, due to the wish to closely monitor any potential changes in the situation. The Bank frequently convenes the Emergency Financial Forum to monitor all financial parameters and changes there to. In practice, no events nor indications were observed which would indicate realization of a liquidity event. In the third quarter of 2023, the Bank maintained high liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (on consolidated basis) for the third quarter of 2023 was 138%. The net stable funding ratio (on consolidated basis) as of September 30 was 113% and there were no deviations from the risk appetite limitations. The Bank maintains high surplus foreign currency, and closely manages its liquidity based on specified guidelines, including ongoing review of Bank compliance with systemic emergency scenarios.

In the third quarter of 2023, technology risk remained Medium. This is a material risk factor for the Bank, and potential damage due to realization of such risk may be significant. Technological activity is focused on changing needs in line with the Bank's business strategy, and taking most of the steps to mitigate potential risk in as much as possible. In the current quarter, in view of the security situation, there were no material events with regard to technology, but there is concern about impact to infrastructure and reduced staffing, which has yet to materialize so far. The Bank focused on maintaining a state of readiness to provide a complete technology resolution for the Bank as a whole, including readiness for deterioration in the security situation, concurrently with development of technology solutions regarding consumer aspects required in emergency, including implementation of benefits provided to assist Bank customers at this time.

Information security and cyber risk remained Medium. In this quarter, a small number of fraud attempts against customers (through phishing attacks) were identified, in which their account credentials were stolen in order to conduct un-authorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in customer accounts. Due to the security situation, the risk of attempted cyber attacks in the banking system is higher, as is the potential for materialization of this risk. In order to identify and thwart cyber events, the Bank has raised its alert, vigilance and readiness for such events. The Bank also acts to prevent fraud, by bolstering its monitoring activity to identify any suspect activity in customer accounts. There is constant activity by attack groups, along with continued activity and bolstering of the Bank's control and protection system. In late October and in early November, several DDoS attacks were conducted against the Bank's marketing website. Throughout this attack, the Bank app and transaction website operated normally, and this attack had no significant 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.

Compliance and regulatory risk remained Low-Medium. The Bank applies the current and new regulatory provisions.

In view of effects of the war, the Bank increased its management focus and monitoring with regard to fairness to customers, in particular for accounts of customers involved in the war or affected by implications thereof. The Bank took action to implement diverse relief measures in order to identify customers with no ID documents, while hedging the potential risk due to such activity, and to identify accounts of those affected by the war, in order to avoid misuse of such accounts by unauthorized persons.

AML and terror financing risk is higher due to the war, and consequently the Bank increased monitoring and handling of this matter, while bolstering controls over transactions and customers at risk. Therefore, this risk level currently remains un-changed.
On October 10, 2023, the AML Authority addressed a letter to the financial sector and to the public, asking them to increase alertness to AML attempts in view of the war and the state of emergency. The Bank operates in conformity with directives and guidelines: to effectively and immediately identify, control, monitor, discover and report to the AML Authority any activities perceived to carry potential AML and terror financing risk.

The Bank's reputational risk remained Low. The Bank closely monitors various benchmarks and indicators with regard to the Bank's reputation. Special attention is paid to customer-facing service at this time, including response and assistance to customer inquiries in view of the war, with emphasis on urgent / humanitarian inquiries. To date there was no material impact on the Bank's reputational risk.

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

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

Macro-economic developments

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 the third quarter of 2023, the Bank of Israel interest remained un-changed at 4.75%. Inflation was slightly lower at 3.8% for the 12 months ended in September, but is still higher than the Bank of Israel target range. Some indicators point to slightly more moderate economic activity in Israel and world-wide. The high interest rate and inflation environment results in higher financing cost for the business segment, and in higher monthly repayments by mortgage borrowers, while free income of households is eroded, and in concern about impact to demand in the economy which would result in higher unemployment and in recession in the economy.
Since October 7, 2023, Israel is at war, following the murderous rampage by Hamas on Israeli soil. This war has extensive economic implications due to impact to real activity and due to increased volatility in financial markets. Impact to real activity is evidenced in significant decrease in household spending by credit cards, decrease in business activity due to many being called up for military reserve service, shutdown of the school system and impact to the sense of security nation-wide, and in particular in areas close to the war fronts.
Increased volatility in financial market was evidenced in the first days of the war by devaluation of the NIS, higher yields on Israeli Government bonds due to the higher risk premium, as well as declines in capital markets. The Bank of Israel announced plans to sell foreign currency (up to USD 30 billion), so as to moderate the fluctuations in NIS exchange rates and to provide liquidity required for continued normal market operation. One month into the war, the Bank of Israel used USD 8.2 billion out of the plan total, thus maintaining significant capacity to intervene in the market.
According to a revised forecast by the Bank of Israel Research Division dated October, due to the war, GDP in Israel is expected to grow by 2.3% in 2023 and by 2.8% in 2024. There is considerable uncertainty with regard to the extent of economic impact, as this would depend on the duration of and developments in the war.

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

Overview of weighted risk assets

	Risk weighted assets		Minimum capital requirements[(1)]
	As of September 30, 2023	**As of June 30, 2023**	**As of September 30, 2023**
Credit risk (standard approach)[(2)]	239,627	232,482	29,953
Counter-party credit risk (standard approach)	2,895	2,728	362
Credit risk value adjustment (CVA)[(3)]	1,486	1,391	186
Settlement risk	102	112	13
Amounts lower than discount threshold (subject to 250% risk weighting)	5,662	5,567	708
Total credit risk	**249,772**	**242,280**	**31,222**
Market risk (standard approach)	1,855	1,710	232
Operational Risk[(4)]	20,140	18,919	2,517
Total	**271,767**	**262,909**	**33,971**

(1) Capital requirement in conformity with required overall minimum capital ratio of 12.5%.
(2) Credit risk excludes counter-party credit risk, credit risk value adjustment, settlement risk, securitization exposures and amounts lower than the deduction thresholds.
(3) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.
(4) Capital allocation with respect to operational risk was calculated using the standard approach.

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

Capital and leverage

Composition of supervisory capital

		As of September 30		As of December 31
		2023	**2022**	**2022**
		NIS in millions		
Tier I equity: Instruments and retained earnings				
1	Ordinary share capital issued by the banking corporation and ordinary share premium for shares included in Tier I equity	3,654	3,599	3,618
2	Retained earnings, including dividends proposed or announced after the balance sheet date	23,314	19,942	20,676
3	Cumulative other comprehensive income and retained earnings disclosed	(505)	(535)	(497)
5	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	570	535	543
6	**Tier I equity before regulatory adjustments and deductions**	27,033	23,541	24,340
Tier I equity: Supervisory adjustments and deductions				
8	Goodwill, net of any deferred tax liabilities	87	87	87
9	Other intangible assets, excluding mortgage service rights, net of deferred tax liabilities	45	65	60
11	Accumulated other comprehensive income with respect to cash flows hedging of items not listed at fair value on the balance sheet	3	(2)	–
14	Un-realized gains and losses from changes to fair value of liabilities arising from changes to the banking corporation's own credit risk. Furthermore, with regard to liabilities with respect to derivative instruments, all accounting value adjustments (DVA) arising from the bank's own credit risk should be deducted	5	4	6
26	Supervisory adjustments and other deductions stipulated by the Supervisor of Banks	(611)	(945)	(885)
28	**Total supervisory adjustments and Tier I deductions**	(471)	(791)	(732)
29	**Tier I shareholders' equity**	27,504	24,332	25,072
Additional Tier I capital: Instruments				
44	**Additional Tier I capital**	–	–	–
45	**Tier I capital**	27,504	24,332	25,072
Tier II capital: Instruments and provisions				
46	Instruments issued by the banking corporation (not included in Tier I capital) and premium for such instruments	2,294	2,232	2,150
48	Tier II capital instruments issued by subsidiaries of the banking corporation to third-party investors	2,475	3,296	3,287
49	Of which: Tier II capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, gradually deducted from Tier II capital	–	–	–
50	Group provisions for credit losses by effect of related tax	3,122	2,326	2,578
51	**Tier II capital before deductions**	7,891	7,854	8,015
Tier II capital: Deductions				
57	**Total deductions from Tier II capital**	–	–	–
58	**Tier II capital**	7,891	7,854	8,015
59	**Total capital**	35,395	32,186	33,087
60	**Total risk weighted assets**	271,767	245,282	252,251
Capital ratios and capital preservation cushions				
61	Tier I shareholders' equity	10.12%	9.92%	9.94%
62	Tier I capital	10.12%	9.92%	9.94%
63	Total capital	13.02%	13.12%	13.12%

		As of September 30		As of December 31
		2023	2022	2022
				NIS in millions
Minimum requirements stipulated by the Supervisor of Banks				
69	Minimum Tier I equity ratio required by Supervisor of Banks	9.60%	9.61%	9.60%
70	Minimum Tier I equity ratio required by Supervisor of Banks	9.60%	9.61%	9.60%
71	Minimum capital ratio required by the Supervisor of Banks	12.50%	12.50%	12.50%
Amounts lower than the deduction threshold (before risk weighting)				
72	Investments in capital of financial corporations (other than banking corporations and subsidiaries thereof), up to 10% of ordinary share capital issued by the financial corporation, which is below the amortization threshold	57	3	3
73	Investments in Tier I equity of financial corporations (other than banking corporations and subsidiaries thereof), over 10% of ordinary share capital issued by the financial corporation, which is below the amortization threshold	3	4	3
75	Deferred tax assets created due to temporary differences, which is below the amortization threshold	2,263	1,747	2,007
Cap for inclusion of provisions in Tier II				
76	Provision qualifying for inclusion in Tier II with regard to exposures under the standard approach, before application of the cap	3,632	2,326	2,578
77	Cap for inclusion of provision in Tier II with regard to exposures under the standard approach	3,122	2,855	2,930

Supervisory capital

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

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

Bank approach to capital adequacy assessment

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

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

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

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

Minimum capital ratio requirement

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

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

For more information see Note 9 to the financial statements.

Leverage ratio

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

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

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

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

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

The Bank's leverage ratio as of September 30, 2023 is 5.78%, compared to 5.42% as of December 31, 2022.

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

Comparison of assets on balance sheet and exposure measurement for leverage ratio	As of September 30, 2023	As of September 30, 2022	As of December 31, 2022
Total assets according to consolidated financial statements	438,289	429,767	428,292
Adjustments with respect to financial derivatives	2,601	89	2,612
Adjustments with respect to off-balance sheet items(1)	31,471	30,465	29,358
Other adjustments	3,654	2,535	2,748
Exposure for leverage ratio	**476,015**	**462,856**	**463,010**

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

Disclosure with regard to leverage ratio (NIS in millions)

	As of September 30, 2023	As of September 30, 2022	As of December 31, 2022
Composition of exposures and leverage ratio (NIS in millions)			
On-balance sheet exposures			
Assets on balance sheet	432,142	420,652	423,160
Amounts with respect to assets deducted to determine Tier I capital	(132)	(152)	(147)
Total on-balance sheet exposures	**432,010**	**420,500**	**423,013**
Exposures with respect to derivatives			
Subrogation cost for all transactions with respect to derivatives	2,672	5,436	2,972
Additional amounts with respect to future potential exposure for all transactions with respect to derivatives	7,208	4,750	5,113
Gross-up of collateral provided with respect to derivatives, deducted from assets on the balance sheet in conformity with Public Reporting directives	–	–	–
Deductions of receivable assets with respect to variable cash collateral provided in derivatives transactions	–	(1,638)	–
Exempt central counter-party leg of commercial exposures disposed by the customer	–	–	–
Adjusted effective par amount of credit derivatives written	–	283	281
Adjusted effective par offsets and deduction of additions with respect to credit derivatives written	–	–	–
Total exposure with respect to derivatives	**9,880**	**8,831**	**8,366**
Exposure with respect to securities financing transactions			
Gross assets with respect to securities financing transactions (without offsets), after adjustment for transactions accounted for as an accounting sale	2,654	3,060	2,273
Offset amounts of cash payable and cash receivable from gross assets with respect to securities financing transactions	–	–	–
Credit risk exposure for central counter-party with respect to securities financing assets	–	–	–
Exposures with respect to transactions as agent	–	–	–
Total exposure with respect to securities financing transactions	**2,654**	**3,060**	**2,273**
Other off-balance sheet exposures			
Off-balance sheet exposure in par value, gross	104,271	104,706	98,930
Adjustments with respect to conversion to credit equivalent amounts	(72,800)	(74,241)	(69,572)
Off-balance sheet items	31,471	30,465	29,358
Capital and total exposure			
Tier I capital	27,504	24,332	25,072
Total exposure	476,015	462,856	463,010
Leverage ratio			
Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218	5.78%	5.26%	5.42%
Minimum leverage ratio required by the Supervisor of Banks	4.50%	4.50%	4.50%

Credit risk

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

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

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

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

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

Credit quality of credit exposures

				September 30, 2023
	Gross balances[1]			
	Non-accruing or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debts, except for bonds	3,232	398,940	3,877	398,295
Bonds	–	12,769	–	12,769
Off-balance sheet exposures[2]	56	104,370	198	104,228
Total	**3,288**	**516,079**	**4,075**	**515,292**

				September 30, 2022
	Gross balances[1]			
	Non-accruing or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debts, except for bonds	2,748	393,014	2,807	392,955
Bonds	–	11,345	–	11,345
Off-balance sheet exposures[2]	–	101,550	186	101,364
Total	**2,748**	**505,909**	**2,993**	**505,664**

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

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

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

Credit risk mitigation methods (CR3)

	As of September 30, 2023								
	Non-secured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debts, except for bonds	346,781	51,514	17,501	27,226	6,954	24,288	10,547	–	–
Bonds	12,769	–	–	–	–	–	–	–	–
Total	**359,550**	**51,514**	**17,501**	**27,226**	**6,954**	**24,288**	**10,547**	**–**	**–**
Of which: Non-accruing or in arrears 90 days or longer	1,449	439	575	1,143	114	247	24	–	–

	As of September 30, 2022								
	Non-secured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debts, except for bonds	351,716	42,368	17,812	34,808	10,301	7,560	7,511	–	–
Bonds	11,345	–	–	–	–	–	–	–	–
Total	**363,061**	**42,368**	**17,812**	**34,808**	**10,301**	**7,560**	**7,511**	**–**	**–**
Of which: Non-accruing or in arrears 90 days or longer	2,259	596	248	137	82	459	165	–	–

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

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

Credit risk using the standard approach

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

Asset types / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total credit exposures (after conversion factors and collateral deduction)
										As of September 30, 2023
Sovereigns, central banks thereof and national monetary authority	87,462	93	–	–	–	–	255	–	–	87,810
Public sector entities (PSE) other than central Government	241	1,763	–	26	–	–	4	–	–	2,034
Banks (including multilateral development banks)	–	4,391	–	341	–	–	109	–	–	4,841
Securities companies	–	887	–	–	–	–	–	–	–	887
Corporations	136	11,171	–	6,255	–	–	76,457	2,645	–	96,664
Retail exposures to individuals	–	–	–	–	–	28,068	–	–	–	28,068
Loans to small businesses	–	–	–	–	–	12,991	–	–	–	12,991
Secured by residential property	–	–	56,579	47,188	58,269	26,701	9,622	–	–	198,359
Secured by commercial property	–	–	–	–	–	–	5,221	–	–	5,221
Loans in arrears	–	–	–	–	–	–	1,001	1,851	–	2,852
Other assets	2,332	–	–	–	–	–	3,888	116	–	6,336
Of which: with respect to shares	–	–	–	–	–	–	561	38	–	599
Total	**90,171**	**18,305**	**56,579**	**53,810**	**58,269**	**67,760**	**96,557**	**4,612**	**–**	**446,063**
										As of September 30, 2022
Sovereigns, central banks thereof and national monetary authority	99,897	106	–	–	–	–	15	–	–	100,018
Public sector entities (PSE) other than central Government	158	1,824	–	68	–	–	4	–	–	2,054
Banks (including multilateral development banks)	–	4,419	–	578	–	–	178	–	–	5,175
Securities companies	–	1,292	–	–	–	–	–	–	–	1,292
Corporations	–	12,411	–	373	–	–	61,997	4,705	306	79,792
Retail exposures to individuals	–	–	–	–	–	27,061	–	–	–	27,061
Loans to small businesses	–	–	–	–	–	13,184	4	–	–	13,188
Secured by residential property	–	–	59,991	44,416	49,458	25,741	6,629	–	–	186,235
Secured by commercial property	–	–	–	–	–	–	5,105	–	–	5,105
Loans in arrears	–	–	–	–	–	–	3,273	2,055	–	5,328
Other assets	2,998	–	–	–	–	–	3,421	407	266	7,092
Of which: with respect to shares	–	–	–	–	–	–	279	194	–	473
Total	**103,053**	**20,052**	**59,991**	**45,435**	**49,458**	**65,986**	**80,626**	**7,167**	**572**	**432,340**
										As of December 31, 2022
Sovereigns, central banks thereof and national monetary authority	98,067	105	–	–	–	–	8	–	–	98,180
Public sector entities (PSE) other than central Government	148	1,683	–	48	–	–	5	–	–	1,884
Banks (including multilateral development banks)	–	2,987	–	1,136	–	–	102	–	–	4,225
Securities companies	–	807	–	–	–	–	–	–	–	807
Corporations	–	10,494	–	3,544	–	–	68,248	3,280	206	85,772
Retail exposures to individuals	–	–	–	–	–	27,461	–	–	–	27,461
Loans to small businesses	–	–	–	–	–	13,045	4	–	–	13,049
Secured by residential property	–	–	57,480	44,752	51,623	25,644	9,897	–	–	189,396
Secured by commercial property	–	–	–	–	–	–	5,136	–	–	5,136
Loans in arrears	–	–	–	–	–	–	1,003	2,347	–	3,350
Other assets	3,117	–	–	–	–	–	3,489	425	4	7,035
Of which: with respect to shares	–	–	–	–	–	–	259	190	–	449
Total	**101,332**	**16,076**	**57,480**	**49,480**	**51,623**	**66,150**	**87,892**	**6,052**	**210**	**436,295**

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

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

Counter-party credit risk

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

	As of September 30, 2023				
	Subrogation cost	Future potential exposure	Alpha used to calculate regulatory EAD	Exposure after deduction of collateral	Risk assets
Standard approach for counter-party risk (SA-CCR) (for derivatives)	1,544	5,020	1.4	9,190	2,776
Comprehensive approach to credit risk mitigation (for securities financing transactions)	2,630	–		288	119
Total	**4,174**	**5,020**		**9,478**	**2,895**

	As of September 30, 2022				
	Subrogation cost	Future potential exposure	Alpha used to calculate regulatory EAD	Exposure after deduction of collateral	Risk assets
Current exposure method	5,192	4,353	1.4	8,507	2,774
Comprehensive approach to credit risk mitigation (for securities financing transactions)	–	–		404	229
Total	**5,192**	**4,353**		**8,911**	**3,003**

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

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

	As of September 30, 2023		As of September 30, 2022		As of December 31, 2022	
	Exposure after deduction of collateral	Risk assets	Exposure after deduction of collateral	Risk assets	Exposure after deduction of collateral	Risk assets
Total – portfolios for which CVA is calculated using the standard approach	9,190	1,486	7,853	1,393	7,348	1,230

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

	As of September 30, 2023				
Supervisory portfolio / risk weighting	**0%**	**20%**	**50%**	**100%**	**Total credit exposure**
Sovereigns	23	–	–	–	23
Public sector entities (PSE) other than central Government	–	55	–	–	55
Banks (including multilateral development banks)	–	3,085	–	0	3,086
Securities companies	–	4,848	–	–	4,848
Corporations	–	–	12	1,146	1,157
Supervisory retail portfolios	–	–	–	10	10
Other assets	–	–	–	–	–
Total	23	7,988	12	1,156	9,179

	As of September 30, 2022				
Supervisory portfolio / risk weighting	**0%**	**20%**	**50%**	**100%**	**Total credit exposure**
Sovereigns	–	–	–	–	–
Public sector entities (PSE) other than central Government	–	31	–	–	31
Banks (including multilateral development banks)	–	1,309	–	–	1,309
Securities companies	–	4,883	–	–	4,883
Corporations	–	–	–	2,292	2,292
Supervisory retail portfolios	–	–	–	13	13
Other assets	–	–	–	–	–
Total	–	6,223	–	2,305	8,528

	As of December 31, 2022				
Supervisory portfolio / risk weighting	**0%**	**20%**	**50%**	**100%**	**Total credit exposure**
Sovereigns	7	–	–	–	7
Public sector entities (PSE) other than central Government	–	26	–	–	26
Banks (including multilateral development banks)	–	2,406	–	–	2,406
Securities companies	–	3,834	–	–	3,834
Corporations	–	–	–	1,061	1,061
Supervisory retail portfolios	–	–	–	14	14
Other assets	–	–	–	–	–
Total	7	6,266	–	1,075	7,348

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

	As of September 30, 2023					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
Cash – local currency	0	1,124	0	680	2,080	-
Cash – other currency	–	2,045	–	1,379	4	–
Domestic sovereign debt	–	374	–	–	11	–
Other sovereign debt	–	379	–	–	–	–
Debt of Government agency	–	–	–	–	–	–
Corporate bonds	–	109	–	–	26	–
Shares	–	852	–	–	221	–
Other collateral	–	–	–	–	–	–
Total	**–**	4,883	**–**	2,059	2,342	**–**

	As of September 30, 2022					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
Cash – local currency	–	336	–	365	1,512	–
Cash – other currency	–	1,199	–	2,280	3	–
Domestic sovereign debt	–		–	–	6	–
Other sovereign debt	–	–	–	–	–	–
Debt of Government agency	–	–	–	–	–	–
Corporate bonds	–		–	–	2	–
Shares	–		–	–	219	–
Other collateral	–	–	–	–	–	–
Total	**–**	1,535	**–**	**2,645**	1,742	**–**

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

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

Market risk

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

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

Market risk using the standard approach

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

	Risk assets as of:		
	September 30, 2023	**September 30, 2022**	**December 31, 2022**
Direct products			
Interest rate risk (general and specific)	1,243	1,177	1,090
Position risk in shares (general and specific)	36	45	44
Foreign currency risk	523	229	125
Commodities risk	–	–	–
Options	–	–	–
Delta Plus approach	53	46	42
Securitization	–	–	–
Total	**1,855**	**1,497**	**1,301**

Exposure in the trading portfolio is low, and mostly due to interest risk. As of September 30, 2023, the increase in risk assets was primarily due to ad-hoc impact of changes in exchange rates.

Liquidity risk

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

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

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

Liquidity coverage ratio

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

	For the three months ended September 30, 2023	
	Total unweighted value[(2)] (Average)	**Total weighted value[(3)] (Average)**
Total high quality liquid assets		
Total high quality liquid assets (HQLA)		**80,986**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	180,093	10,587
Stable deposits	41,161	2,058
Less stable deposits	54,864	6,007
Deposits for term longer than 30 days	84,069	2,522
Non-secured wholesale financing, of which:	79,268	51,603
Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations	3,376	844
Deposits other than for operational needs (all counter parties)	75,815	50,682
Non-secured debts	77	77
Secured wholesale financing	–	200
Other liquidity requirements, of which:	151,676	62,132
Outgoing cash flows with respect to exposure to derivatives and other collateral requirements	55,399	55,399
Credit lines and liquidity	58,488	5,272
Other contractual financing obligations	–	–
Other contingent financing obligations	37,789	1,461
Total outgoing cash flows	**411,037**	**124,523**
Incoming cash flows		
Secured loans	1,451	237
Incoming cash flows from exposures repaid regularly	15,703	11,417
Other incoming cash flows	57,088	54,268
Total incoming cash flows	**74,243**	**65,922**
		Total adjusted value[(4)]
Total high quality liquid assets (HQLA)		**80,986**
Total outgoing cash flows, net		**58,601**
Liquidity coverage ratio (%)		**138%**

(1) Information presented in terms of simple average of daily observations during the reported quarter. The number of observations used in calculating the averages in the third quarter of 2023 is 74.
(2) Un-weighted values are calculated as un-settled balances to be repaid or repayable by the holder within 30 days (for incoming and outgoing cash flows).
(3) Weighted values are calculated after applying appropriate safety factors or rates of incoming and outgoing cash flows (for incoming and outgoing cash flows).
(4) Adjusted values are calculated after applying: Safety factors and rates of incoming and outgoing cash flows, as well as other relevant limitations (i.e. limitation on high quality liquid assets and limitation on incoming cash flows, as set forth in Proper Conduct of Banking Business Directive 221).

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

	For the three months ended September 30, 2022	
	Total unweighted value[(2)] (Average)	**Total weighted value[(3)] (Average)**
Total high quality liquid assets		
Total high quality liquid assets (HQLA)		**84,602**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	167,813	11,101
Stable deposits	44,871	2,244
Less stable deposits	64,985	7,119
Deposits for term longer than 30 days	57,957	1,739
Non-secured wholesale financing, of which:	94,318	61,834
Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations	3,628	907
Deposits other than for operational needs (all counter parties)	89,430	59,668
Non-secured debts	1,259	1,259
Secured wholesale financing	–	313
Other liquidity requirements, of which:	147,273	50,437
Outgoing cash flows with respect to exposure to derivatives and other collateral requirements	42,192	42,192
Credit lines and liquidity	61,369	5,002
Other contingent financing obligations	–	–
Total outgoing cash flows	**409,404**	**123,686**
Incoming cash flows		
Secured loans	2,612	409
Incoming cash flows from exposures repaid regularly	16,621	11,614
Other incoming cash flows	43,177	40,754
Total incoming cash flows	**62,410**	**52,777**
		Total adjusted value[(4)]
Total high quality liquid assets (HQLA)		**84,602**
Total outgoing cash flows, net		**70,909**
Liquidity coverage ratio (%)		**119%**

(1) Information presented in terms of simple average of daily observations during the reported quarter. The number of observations used in calculating the averages in the third quarter of 2022 is 77.

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

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

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

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

	Three months ended December 31, 2022	
	Total unweighted value[2] (Average)	**Total weighted value[3] (Average)**
Total high quality liquid assets		
Total high quality liquid assets (HQLA)		**84,000**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	170,307	10,832
Stable deposits	43,214	2,161
Less stable deposits	61,119	6,693
Deposits for term longer than 30 days	65,973	1,979
Non-secured wholesale financing, of which:	94,534	62,030
Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations	3,497	874
Deposits other than for operational needs (all counter parties)	90,954	61,072
Non-secured debts	84	84
Secured wholesale financing	–	266
Other liquidity requirements, of which:	155,051	63,853
Outgoing cash flows with respect to exposure to derivatives and other collateral requirements	55,678	55,678
Credit lines and liquidity	56,174	4,630
Other contractual financing obligations	–	–
Other contingent financing obligations	43,199	3,545
Total outgoing cash flows	**419,892**	**136,982**
Incoming cash flows		
Secured loans	2,396	398
Incoming cash flows from exposures repaid regularly	15,041	10,880
Other incoming cash flows	56,992	54,273
Total incoming cash flows	**74,429**	**65,551**
		Total adjusted value[4]
Total high quality liquid assets (HQLA)		**84,000**
Total outgoing cash flows, net		**71,431**
Liquidity coverage ratio (%)		**118%**

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

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

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

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

Key factors that impact results of the liquidity coverage ratio

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

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

Composition of high quality liquid assets (HQLA)

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

	September 30		Average for the third quarter	
	2023	2022	2023	2022
Level 1 assets	79,933	83,466	80,914	84,542
Level 2a assets	37	35	42	37
Level 2b assets	33	25	30	23
Total HQLA	**80,003**	**83,526**	**80,986**	**84,602**

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

Composition of pledged and un-pledged available assets:

	As of September 30, 2023		
	Total balance on balance sheet	Of which: Pledged	Of which: Non-pledged
Cash and deposits with central banks	79,274	3,630	75,644
Bonds of the Government of Israel	15,226	266	14,960
Bonds of others in Israel	2,000	–	2,000
Bonds of overseas governments	657	224	433
Bonds of others overseas	501	–	501
Loans to the public, net	323,590	3,536	320,054
Total	421,248	7,656	413,592

	As of September 30, 2022		
	Total balance on balance sheet	Of which: Pledged	Of which: Non-pledged
Cash and deposits with central banks	91,165	2,563	88,602
Bonds of the Government of Israel	9,994	234	9,760
Bonds of others in Israel	1,854	–	1,854
Bonds of overseas governments	1,318	320	998
Bonds of others overseas	537	–	537
Loans to the public, net	304,104	4,365	299,739
Total	408,972	7,482	401,490

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

Developments in liquidity coverage ratio

In the third 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 third quarter of 2023 was 138%, up from the second quarter of 2023 (128%). This increase is primarily due to deposits diverted to terms longer than one month. In this quarter, there were no deviations from the risk appetite limitations.

Net stable funding ratio

Net stable funding ratio

On June 21, 2021, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 222 regarding "Net stable funding ratio (NSFR)", which stipulates calculation of the ratio as specified in the Basel III Reform of the Basel Committee (BCBS).
In conformity with this directive, the objective of the net stable funding ratio is to improve stability of the liquidity risk profile of banking corporations over the long term, by requiring banking corporations to maintain a stable funding profile in conformity with the composition of on-balance sheet assets and off-balance sheet operations. The ratio limits over-reliance by banking corporations on short-term wholesale funding. The net stable funding ratio consists of two components: available stable funding items and required stable funding items.
As required in the directive, the net stable funding ratio should be 100% or higher on regular basis.
In conformity with the directive, "Available stable funding" is defined as the part of capital and liabilities that may be relied upon over the time horizon taken into account in the net stable funding ratio, of one year. The required stable funding amount for a given corporation is based on the liquidity attributes and time to maturity of various assets held by the corporation, as well as of off-balance sheet exposures.

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

	A	B	C	D	E
	Non-weighted value by term to maturity				Weighted value
Available stable funding items (ASF)	No maturity (1)	Up to 6 Months	From 6 months Up to 1 year	12 months or longer	
Capital:	30,911	598	33	4,564	35,491
Supervisory capital	30,911			1,445	32,356
Other capital instruments		598	33	3,119	3,135
Retail deposits from individuals and from small businesses		133,653	22,556	7,290	150,317
Stable deposits		45,140	3,640	1,372	47,714
Less stable deposits		88,513	18,916	5,918	102,604
Wholesale financing		160,986	29,430	35,476	86,113
Deposits for operational needs		3,460			1,730
Other wholesale financing		157,526	29,430	35,476	84,383
Liabilities with matching assets which are inter-dependent					
Other liabilities:	165	5,330	3,539	2,729	4,499
Liabilities with respect to derivative instruments for net stable funding ratio				6,095	
All other liabilities and capital not included in the above categories	165	5,330	3,539	2,729	4,499
Total available stable funding items (ASF)					276,420
Required stable funding items (RSF)					
Total high-quality liquid assets by net stable funding ratio (HQLA)					671
Deposits held at other financial institutions for operational purposes					
Loans and securities in good standing:		85,368	24,542	227,607	234,673
Loans to financial institutions in good standing, secured by level 1 high-quality liquid assets					
Loans to financial institutions in good standing, secured by high-quality liquid assets other than in level 1, and loans to financial institutions in good standing which are not secured		10,483	7,226	8,403	13,125

	A	B	C	D	E
	Non-weighted value by term to maturity				Weighted value
Available stable funding items (ASF)	**No maturity (1)**	**Up to 6 Months**	**From 6 months Up to 1 year**	**12 months or longer**	
Loans to wholesale customers, other than financial institutions, which are in good standing, loans to retail customers and to small businesses and loans to sovereigns, to central banks and to public sector entities		65,112	7,322	29,706	60,878
Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203		11	6	69	53
Residential mortgages secured by mortgage in good standing, of which:		9,771	9,993	189,215	160,428
Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203		3,369	3,414	51,436	36,825
Securities not in default which do not qualify as high-quality liquid assets, including shares traded on the stock exchange		2	1	284	243
Assets with corresponding liabilities which are inter-dependent					
Other assets:	1,537	907	1,096	422	4,961
Physically traded commodities, including gold					
Assets deposited as primary collateral for derivative contracts and provided to default funds of central counter parties (CCPs)				861	861
Assets with respect to derivative instruments for net stable funding ratio				7,319	61
Liabilities with respect to derivative instruments for net stable funding ratio, before deduction of variable collateral deposited				78	78
All other asset categories not included in the above categories	1,537	907	1,096	422	3,962
Off-balance sheet items				95,957	4,281
Total required stable funding (RSF)					244,587
Net stable funding ratio (%)					113%

Key factors that impact results of the net stable funding ratio

Net stable funding ratio on consolidated basis as of September 30, 2023 was 113%, compared to 115% on June 30, 2023. The decrease in this ratio is due to current activity in credit and deposits in the third quarter.

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

Glossary and index of terms included on the risks report

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

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

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

Terms with regard to banking and finance

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

Terms with regard to regulatory directives

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

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מזרחי טפחות

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