FIBI FIRST INTERNATIONAL BANK OF ISRAEL

ANNUAL REPORT **2022**

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STATEMENT BY THE CHAIRMAN OF THE BOARD

Dear stakeholders,

I am honored to present to you the financial statements of the First International Bank Group for the year 2022, a year of significant growth, together with excellent financial results.

These results are not self-explanatory. The end of the global pandemic put the world in front of new challenges, which had an impact also on the economies and the financial markets, challenges that have intensified in view of the Russia-Ukraine war. The disruptions in the chains of supply and the growth in the quantity of money created during the pandemic years caused the inflation to rise at significant rates. A tightening monetary policy was required in Israel and worldwide, which has led to significant increases in interest, which in the last decade remained at negligible levels, affecting financial systems, capital markets and credit. Recently, the Government and the Knesset started a process promoting changes in Israel's legal system. These changes, if materialized, may result in macro-economic effects on the economy, the capital markets and the currency. At this stage, it is not possible to assess what would be the developments and their impact on the economy.

In 2022, the Bank group presented significant growth in all its strategic focus areas, with a parallel growth in income and in net earnings. This, together with the rise in interest, led to return on capital of 16.6%. The Bank Group continued to focus on innovation and technology, under the assumption that the combination of customer modified banking together with leading digital capabilities, enables the Bank to serve as an excellent home for its customers and employees.

The rating of the Bank, by local rating agencies, is at the highest level of "AAA". The international rating agency Moody's rates the Bank at a level of "A2". This reflects trust in the stability of the Bank and in the strategic moves led by the Management of the Bank. An additional important statement of trust was obtained recently, with the inclusion of the shares of the First International Bank, for the first time in its history, in the major shares Index of MSCI, as one of the fifteen Israeli shares included in this superior Index.

In 2022, the Bank Group formed and approved a triennial strategic program, with a focus on continuing growth, accelerated digital transformation and continuation of the modernization of the Bank's systems, strengthening leadership in the investment and capital market fields and strengthening of the presence among households and small and middle market businesses.

We are engaged to a large extent with the future of banking and with new directions enabling us to grow, while creating value for our stakeholders.

We continue to increase, in favor of our customers, our investment in technology and in digital means, certain of which are pioneering, and to make the Bank's services layout accessible to them, at the time and place suitable to them. These means make it possible for us to cope with the competitive banking arena, into which many new players enter, both local and international, including non-banking players.

The Bank's activity in the field of corporate responsibility continues to accelerate, being a leading bank in the banking system as regards the rate of employment of female employees in senior positions. The Bank acts in order to reduce the carbon footprint and, inter alia, examines expanding the use of solar generated electricity as well as investment in these fields. This, in continuation of the outline applied by the Bank, with an emphasis on business activity alongside environmental, social and corporate governance considerations (ESG). We view the contribution to the community as an important element, according to which we act by means of programs based on the triangle: community, employees and managers of the Bank and the Bank itself, in order to create value multipliers in the effective contribution to the community. For example, we have enlarged the residential project for lone soldiers, with the significant participation of Bank employees.

As a banking group, being one of the five major banking groups, the First International Bank strictly maintains values of fairness and transparency, and also considers itself as a Bank seeking competition and generating competition in the varied fields of operation.

The stability of the Bank allows us to stand by our customers, as we had done during the Corona period, and assist them in confronting economic challenges, investment management and management of business and households, enabling them to grow.

We view the employees and managers of the Bank Group as a vital and special component in the process of creating value for our customers, shareholders and the other stakeholders.

Thanks of the Board of Directors are given to employees of the Bank at the branches and at Head Office, to Management of the Bank who leads the Bank Group safely and successfully and to the customers of the Group, both private and business, who have trust in us.

Ron Levkovich
Chairman of the Board

Tel-Aviv, March 21, 2023

Report of the Board of Directors and Management

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REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT

The meeting of the Board of Directors held on March 21, 2023, resolved to approve and publish the audited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), at December 31, 2022.

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

DESCRIPTION OF OPERATION OF THE BANK GROUP

The business operations of the Bank Group focus on several principal areas:

- Financial brokerage between depositors and borrowers, which is the basis for commercial banking. Income from such operation is reflected in net interest income comprising the main source of profit of the Group.
- Financial and banking services producing commission income in a variety of operations in the foreign currency, international trade, securities, information services, credit cards, derivative financial instruments, etc.
- Investment and pension consulting.
- The "nostro" investments of the Bank and market and liquidity risk management.
- Operational banking services for the capital market.
- Trusteeship services for institutional customers through the Bank's trust company.

The Bank operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market.
- The banking division, which through the branches provides banking and mortgages services to all customers segments- households, private banking and small businesses. In this framework operate UBank branches specializing in private banking and capital market operations and Otsar Hahayal branches, specializing in providing services to retail and commercial customers with emphasis on the employees and retirees of the defence forces. In addition, the PAGI sub-division branches specialize in the religious and orthodox segment.
- The customer asset division centralizing the whole operation in the capital market, money market and foreign currency operation with private customers, business customers, institutional customers and capital market professionals. Within the division operating dealing rooms of securities, foreign currency and deposits as well as investment and pension advisement settings, investment center and UBank trust company and Unique International portfolio management company.

In addition to the Bank, the Group includes Massad Bank specializing in providing services to the teachers population in Israel.

RATIFICATION OF THE BANK'S RATING BY RATING AGENCIES

On August 8, 2022, Midrug ratified the evaluation of the Bank's internal financial stability at the rank of aa2.il, the Bank's short-term deposits at the rank of P-1.il, the Bank's long-term deposits and the senior debt at the rank of Aaa.il/stable outlook and its subordinate debt notes with a loss absorption mechanism at Aa3.il (hyb)/stable outlook rating.
On November 8, 2022, the international rating agency Moody's ratified the rating of long-term deposits with the Bank in foreign currency and in Israeli currency at A2, the short-term deposits with the Bank at Prime-1, and the rating outlook at "stable".
On January 10, 2023, S&P Maalot ratified the issuer rating of the Bank at the rank of AAAil/Stable and the deferred debt notes having a loss absorption mechanism at the rank of -AAil.

FORWARD-LOOKING INFORMATION

Part of the information detailed in these reports which does not refer to historical facts comprises forward-looking information as defined in the Securities Law, 1968. Actual results are likely to be substantially different from those included in the context of forward-looking information, including, inter alia, due to the results of changes in capital markets in Israel and around the world, macro-economic changes, regulatory changes, accounting changes, as well as other changes that might lead to the nonrealization of the assessments.

Forward-looking information is notable for such words or expressions as: "goal", "forecast," "assessment", "scenario", "predicted", "anticipated", "expected", "in the Bank's estimation" and "the Bank intends," as well as similar expressions, in addition to adjectives such as "will be able," "might be" and "will be." These forward-looking expressions involve risks and uncertainty because they are based on the Management's assessments regarding future events that may not occur or that may occur in a different manner than expected as the result, inter alia, of the aforementioned factors or as the result of the materialization of one or more of the risk factors detailed in the Chapter on risk review presented in this report.

The information in this report is based, among other, on publications of different entities, such as: the Central Bureau of Statistics, the Treasury department and the data from the Bank of Israel, as well as on public information given by different factors operating and connected with the capital and money markets, or those having an influence on these markets.

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	2022	2021	2020	2019	2018
					percent
Execution indices					
Return on equity attributed to shareholders of the Bank	**16.6%**	14.7%	8.6%	10.5%	9.3%
Return on average assets	**0.89%**	0.82%	0.49%	0.63%	0.54%
Ratio of equity capital tier 1	**10.42%**	11.46%	11.18%	10.81%	10.51%
Leverage ratio	**5.19%**	5.34%	5.29%	5.81%	5.76%
Liquidity coverage ratio(1)	**127%**	128%	150%	128%	122%
Net stable funding ratio(2)	**133%**	*139%			
Ratio of total income to average assets	**2.9%**	2.6%	2.7%	3.0%	3.0%
Ratio of interest income, net to average assets	**2.0%**	1.6%	1.7%	1.9%	1.8%
Ratio of fees to average assets	**0.8%**	0.8%	0.9%	0.9%	1.0%
Efficiency ratio	**50.9%**	58.3%	61.8%	64.4%	68.4%
Credit quality indices					
Ratio of provision for credit losses to credit to the public	**1.02%**	1.05%	1.38%	1.05%	1.02%
Ratio of non-accruing debts or in arrears of 90 days or more to credit to the public	**0.48%**	**0.63%	0.86%	1.08%	0.83%
Ratio of provision for credit losses to total non-accruing credit to the public	**220%**	**244%	221%	131%	186%
Ratio of net write-offs to average total credit to the public	**0.03%**	(0.01%)	0.10%	0.10%	0.16%
Ratio of expenses (income) for credit losses to average total credit to the public	**0.11%**	(0.23%)	0.52%	0.16%	0.20%

Principal data from the statement of income	2022	2021	2020	2019	2018
					NIS million
Net profit attributed to shareholders of the Bank	**1,667**	1,405	750	865	733
Interest Income, net	**3,803**	2,794	2,637	2,602	2,486
Expenses (income) from credit losses	**123**	(216)	464	138	166
Total non-interest income	**1,611**	1,756	1,523	1,520	1,637
Of which: Fees	**1,489**	1,444	1,371	1,286	1,325
Total operating and other expenses	**2,755**	2,652	2,569	2,654	2,819
Of which: Salaries and related expenses	**1,680**	1,601	1,532	1,601	1,696
Dismissal expenses	**4**	36	26	48	35
Primary net profit per share of NIS 0.05 par value (NIS)	**16.62**	14.00	7.48	8.62	7.31

Principal data from the balance sheet	2022	2021	2020	2019	2018
					NIS million
Total assets	**195,955**	180,470	167,778	141,110	134,120
of which: Cash and deposits with banks	**57,130**	57,370	57,802	37,530	31,303
Securities	**16,010**	15,091	13,105	10,995	12,595
Credit to the public, net	**115,961**	101,164	90,970	87,899	84,292
Total liabilities	**184,920**	170,033	158,243	132,186	125,707
of which: Deposits from the public	**168,269**	153,447	141,677	120,052	111,697
Deposits from banks	**4,821**	5,144	2,992	1,137	1,150
Bonds and subordinated capital notes	**4,749**	3,356	4,394	3,674	4,989
Capital attributed to the shareholders of the Bank	**10,559**	10,003	9,141	8,568	8,093

Additional data	2022	2021	2020	2019	2018
Share price (0.01 NIS)	**13,900**	12,950	8,514	9,989	7,860
Dividend per share (0.01 NIS)	**942**	543	125	410	355
Average number of positions (3)	**3,676**	3,715	3,895	4,086	4,285

* Restated.

** Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts, since January 1, 2022. Comparative data for 2018, 2019 and 2020 have not been restated.

(1) The ratio is computed in respect of the three months ended at the end of the reporting period.

(2) According to instructions of the Bank of Israel the Net stable funding ratio was calculated since 2021. Therefor no comparative data is stated.

(3) The number of positions includes conversion of overtime in terms of positions.

PRINCIPAL RISKS TO WHICH THE BANK IS EXPOSED

The Bank group activity involves exposure to risk, the more significant of which are: Credit risk, including credit concentration (borrower and sectorial); Market risks, the principal of which is interest rate risk; Liquidity risks; Operating risks, including cyber and information security and IT risk; Compliance and Money Laundering risks; Strategic risk; Reputation risk; Legal risk, Legislation and Regulation risk and Model risk.

All material risks are managed by and the responsibility of appointed members of Management. A regulatory requirement for capital adequacy exists in respect of credit, market and operating risks, according to the instructions of Pillar I of Basel. Within the framework of the Internal Capital Adequacy Assessment Process ("ICAAP"), the Group performs an intensive process for the identification of additional risk centers and the challenging of identified risk centers, in accordance with Pillar I. Where required, a supplementary allocation of capital is made in respect of Pillar I risks, and an additional allocation of capital in respect of other risks and sub-risks.

LEADING AND DEVELOPING RISKS

Leading and developing risks stem from the business activity environment of the Bank and include also risks that may arise in new areas, or new risk focal in existing areas, deriving, among other things, from changes in the environment effecting banking operations, including regulatory, competitive, digital environments and more.

Following are details regarding the principal leading and developing risks:

1. **Macro-economic risk** - The business results of the banking sector in Israel and of the Bank being a part thereof, are directly affected by the economic conditions in Israel and globally. Deterioration in economic conditions, (including changes in interest rates, currency exchange rates, inflation rates and more), and in political and defense conditions, might lead to impairment in income of the Bank Group, increase the volume of troubled debts and adversely affect the results of the Group.

   Recent macro-economic developments, continuation of the inflationary trend, the effect of rising interest rates in Israel and globally, volatility and falling prices on the capital market, the state of war in the Ukraine, geo-political changes in Israel and globally, and more, may lead to a slowdown in economic activity and may adversely affect the business activity of the Bank, the financial condition of borrowers and the income of the Bank Group. Furthermore, steps were taken recently for the promotion of proposals for changes in the Israeli legal system, which raises a wide public dispute. Uncertainty exists in the financial markets as to the possible impact that promotion of such moves may have, if at all. At this stage, it is not possible to assess what would be the developments regarding this issue, and what would be the implications of such changes on the Israeli economy. As of date of publication of the financial statements, volatility has grown in the financial markets and in the leading share indices on the Stock Exchange in Israel. Changes have taken place in the global markets with respect to the pricing of Israeli financial assets and the shekel devalued against the currencies' basket. The Bank continues the follow-up and the monitoring of the different risks, including those, the probability of their realization increased as a result of the said developments, their implications and impact upon the Bank.

   In view of the rising exposure of the banking system to credit to the construction and real estate sector, which, according to the Supervisor of Banks, is marked by an increase in the risk appetite, by mitigation in underwriting terms, as well as by a decline in credit margins of new transactions, the Supervisor of Banks ordered, inter alia, modification of the collective credit loss allowance in respect of the credit portfolio of the construction and real estate sector, so as to properly reflect the growth in the risk level of the portfolio. The Bank has a specific policy regarding the different lines of operation in the construction and real estate segment, and is implementing a measured credit policy in this field, which is being updated on a current basis, in accordance with changes in this sector and with regulatory requirements. For additional information, see the Chapter on "Risk Review – Risks in the construction and real estate sector".

2. **Strategic/business model risk** - Changes in the operating environment of the Bank and the material growth in the force of competition had been examined and reflected when forming the strategic plan of the group for the years 2023-2025,

approved in December 2022. The strategic plan is being reviewed considering the macro-economic developments and the changes in the competitive environment and the different challenges that face the Bank.

Changes affecting the business environment and are changing the force of competition:

- Changes in classes of competitors – in recent years, competition regarding financial services and products has widened over and above the traditional competition between banks, with the entry and entrenchment of new and existing players in traditional financial activities, such as: digital banks, off-banking competitors, insurance companies, credit card companies, retail companies, as well as startup and fintech companies, which develop innovative products in this field, and global big-tech corporations expected to expand their activity in the financial field in the coming years.
- Changes in the banking business model – The many developments occurring concurrently in the different competitive areas in the banking and off-banking financial sector, in the progress made in the technology and in the changes in customer needs and preferences, lead to changes in the banking model.
- Technological changes – the transition to digital banking and the entry into financial activity of technological competitors create new technological risks and challenges as well as new information protection and cyber risks, to which the Bank is preparing.
- Changes in regulation - the regulatory environment continues intensively to promote the regularization of moves that raise the level of competition in different fields, such as payment services, changes in the credit card and payments market, the application of an open banking Standard that allows the sharing of financial data of customers with third parties, the reform for the movement of customers between banks, establishment of a banking computerization services bureau, regulation supporting the transition to digital banking, and more.
- Changes in customer needs – risks related to changes in customer preferences, including the increasing readiness for obtaining financial services from off-banking entities.
- Demand for greater efficiency in the banking sector - The growing competition in the financial markets has led to the promotion of efficiency measures, within the framework of which different steps were taken for the saving in expenses, thereby improving the efficiency ratio. In continuation of the efficiency measures, which the Bank has been adopting in recent years, the Bank continues to improve efficiency by diverting operations to digital means, increasing efficiency of processes and by modifying the operating model to the changing banking environment.

3. **Regulatory risk** - This risk stems from the trend of increasing regulatory requirements in recent years in Israel and around the world. The said regulatory changes and the implementation of regulatory reforms increase uncertainty and competition in the financial sector and creates risks to the income and equity of the Group, including by way of preventing or imposing restrictions on business activity. These changes also require preparation, implementation and integration of regulatory requirements involving heavy costs and investments (such as investment in computer systems) for the Bank. Furthermore, noncompliance with the provisions of the law and regulations applying to the Bank and to the Group exposes them to sanctions, including monetary sanctions, claims by customers, including class action suits, subjecting the banking corporation and its officers to criminal responsibility, as well as impairment of the public image of the Bank. The regulatory risk is managed by the Bank as part of the legal risk, of compliance risk and of strategy risk.

   The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, serves as a guiding line for the activity of all functions at the Bank managing Compliance risk in general and abiding by all regulatory instructions in particular, outlines the principles and fundamentals and establishes the authority and areas of responsibility of the different functions at the Bank and at the Group for the purpose of forming an appropriate infrastructure for the implementation of the duties applying to the Bank and the Group as regards compliance and the regulation thereof in procedures and processes.

   The regulatory-legal aspects are supervised and managed by the legal counseling group within the framework of the policy for the management of legal risk, as approved by Management and the Board of Directors. The policy regularizes the manner of identifying, mapping and minimizing the legal risk, including by way of the current monitoring of developments in legislation, regulations and Court decisions, providing current legal advice and support, inter alia, on basis of such developments.

From the strategic aspect - the strategic program and the work plan relate to the possible implications mentioned above, and take into consideration the said changes. For details regarding material regulatory initiatives having a possible effect on the Bank's operations in the reported period see "Legislation and regulatory initiatives" in the chapter on corporate governance, additional information.

4. **Cyber and data protection risks (as part of the operational risk)** - cyber risk is defined as potential for damage stemming from a cyber event, considering its probability level and the seriousness of its implications. Cyber risks, leakage of information and data protection risks have a high potential for causing damage upon occurrence of a significant event involving high recovery costs. Innovation in banking and in communication, the use of new technologies, open systems and cloud computing applications, entail operational risks with an emphasis on cyber and data protection risks. Consequently, for the purpose of the proper management of cyber risk, the existing framework of information technology and data protection risk management at the Bank has been broadened and adapted from the aspects of the dimension of the threat and the required defense capabilities. The Bank has defined a strategy, policy, the appointment of a cyber protection manager responsible for the implementation of the policy and the structuring of a methodology for the management of the risk. Furthermore, the Bank manages the cyber risk by adopting many preventative actions for the reduction in risk, including promoting awareness in cyber and data protection areas and conducting exercises.

   Cyber-attacks continue in the recent period on financial organizations around the world, on organizations in Israel and on the chain of supply bodies of such organizations. Furthermore, a growth trend is noticed in cyber-attacks by state factors, as well as a significant increase in phishing and social engineering attempts. Exposure to the realization of cyber events has increased, inter alia as a result of the increased use by customers of digital channels and the continuation of distance work by employees and suppliers. The Bank currently adopts measures for minimizing risks, including distant access solutions accompanied by the data protection department, increasing monitoring and application of controls and diverse means, in accordance with the development of threats.

   The Bank has insurance policies providing insurance coverage to the Bank Group in respect of different damage events as a result of computer failure and/or cyber event.

5. **Information technology risk (as part of operational risk)** - in recent years the technological environment is developing with an ever-growing dependence on it, and need has arisen for increasing business and technical flexibility as well as need for the increasing use of new technologies. The Bank Group has a plan for the upgrading of the computer infrastructure providing technological response for the purpose of realizing the business strategy of the Bank.

6. **Cross-border risks (as part of compliance risk)** - the Bank Group conducts business in different banking fields. Among its customers, the Bank Group provides services also to customers who are foreign residents. On background of the increased efforts made by different countries to discover funds of their residents held outside their country of residence as well as the growing trend of international cooperation in the campaign against tax evasion, the Bank's operations with foreign residents may increase exposure of the Bank to compliance risk stemming from cross-border activity as well as to reputation risk. The Bank Group has a designated policy covering this subject. Work procedures have been established and a line of operational measures is being conducted for the management and reduction of the risk.

In addition to the above, developments in legislation and banking regulation had taken place in recent years in Europe and in the world in general, which may impact the level of risk and exposure to compliance risks, stemming from banking services provided to customers who are foreign residents. As a general rule, the Bank does not initiate marketing, promotion and advertising activity and does not distinctly offer or direct its services to foreign resident customers, whether directly or online. The Bank has no extensions or representative offices outside Israel and the staff of the Bank does not operate outside Israel. With respect to accounts of foreign residents held with the Bank, the Bank adopts a risk-based approach regarding all procedures for the opening of such accounts and the management thereof, in order to minimize and hedge, to the extent possible, the feasibility or possibility of violation by the Bank of foreign law while providing banking services to foreign resident customers. All this, by prohibiting active marketing operations, limitation and adaptation of the type and manner of providing the services, including restricting or avoiding the granting of services to foreign residents when staying outside Israel, and reference to the question of who is the initiator of the service.

The level of cross-border risk has grown since the outbreak of the war between Russia and the Ukraine, and the beginning of the sanctions' regime imposed on Russia and on the separatist region in Ukraine. It is emphasized that in view of the existing reality, controls and examinations conducted by the Bank have been increased, with a focus on the current updating of lists of those declared as under sanctions, and on control over transactions involving Russia, Ukraine and Belarus.

FATCA instructions – constituting US legislation established in an inter-state treaty with the State of Israel, by way of local legislation. In accordance with the FATCA rules, the Bank conducts internal procedures for the identification and documentation of US customers, and in September of each year, in respect of the preceding tax year, submits a report in their respect to the US tax authorities, via the Israeli Tax Authority. In accordance with the said rules, since their effective date, the Bank allows the opening of a new account, subject to the signing of a declaration by the customer regarding his tax residency.

CRS instructions – A Standard developed by the OECD, the aim of which is the collection of information regarding the tax residency of customers of a bank and reporting them to the tax authorities of the member countries by means of the Israeli Tax Authority. The Standard, which had been integrated by local legislation, is being implemented by the Bank, which submits in September reports in respect of the previous tax year, regarding customers who had declared foreign tax residency, or customers whose accounts show indications of such tax residency.

The QI Regulations – United States tax regulations relating to withholding tax on income derived from a US source, including dividend income and interest payment on US securities. The Regulations state, inter alia, the duties of identification, documentation, withholding of tax and reporting, and apply to all holders of securities receiving income from a US source, whether they are Americans not Americans.

7. **Conduct risk (as part of compliance risk)** - the Bank Group has integrated values of fairness and transparency in its operation with customers, and is reinforcing these principles in its current conduct. As a general rule, the Bank group is required to verify that the offers made to customers are adapted to their needs and that services are provided without discrimination of any kind. Non-compliance with the proper conduct standard exposes the Group to different risks such as: compliance, legal, reputation and such like risks. The Bank approved a policy in the matter of proper business conduct, being part of the compliance policy, and one of the targets of the compliance officer is to integrate the said principles into the different divisions of the Bank.

8. **Environment and climate risks** - Risk of exposure to losses created by risks related to environmental effects, both due to costs originating in exposure to environmental risks (environmental damage – soil contamination, air pollution, shortage of water, earthquakes, etc.) and due to costs originating in exposure to climate risks (physical risks – heat waves, draught, flooding etc.), or transition risks related to climate changes. These risks have a possible effect regarding a number of aspects, directly or indirectly: credit risk, market risk, operating risk, compliance risk and reputation risk.

- Direct effect - stemming from the cost of environmental hazards that the Bank has to bear, including in respect of direct damage related to climate changes, or monetary loss that might be caused due to adoption of rules regarding climate and environmental policy, technological developments and changes in market preferences.

  Indirect effect - such as effect on credit risk, which may stem from a deterioration in the financial condition of a borrower, following environmental effects and climate changes, inter alia, following non-compliance with the relevant environmental provisions of the law, due to heavy expenses required in order to comply with environmental regulation requirements, or due to a high penalty that may be imposed on a borrower in respect of an environmental hazard as well as the materialization of other risks related to environmental risks, such as legal risk and reputation risk.

  The Bank takes action to identify and manage these risks, with a focus on credit risk, while striving to reduce or prevent the risk stemming from environmental effects having a hazard potential. The Bank ascribes importance to the financing of projects/entities contributing to environmental development, such as the financing of projects in the field of renewable energy.

For additional information, see the Chapter on risk review below and the risk report on the Internet website of the Bank.

EFFECT OF CHANGES IN INTEREST AND IN THE CONSUMER PRICE INDEX

The year 2022 was marked by the trend of rising inflation rates in Israel and in the leading economies around the world, which crossed the upper limit of the inflationary goals, this in view of the exit from the Corona crisis, the continuing war in the Ukraine and the following sanctions on Russia, which have contributed to the intensification of the energy crisis in Europe, increasing the global economic uncertainty.

This trend of rising inflation induced central banks to tighten their monetary policies and introduce rising interest rates.

On background of expectations for the continuation of rising interest rates in the leading economies and for uncertainty, trading on capital markets in Israel and the world over in 2022 was marked by considerable volatility and by falling prices.

In the months of January and February 2023, Bank of Israel continued to raise the interest rate in the economy, which stands at 4.25%. The latest interest decision published in February 2023, noted that the inflation in the past twelve months is found above the upper limit of the goal, amounting to 5.4%, and that the contracting monetary policy and moderation in global economic activity, are expected to result in a certain slowdown also in economic activity in Israel, alongside a slowdown in the rate of inflation.

For additional details, see the Chapter "Principal economic developments" below.

The Bank is taking various actions in order to face the impact of changes in interest and in the inflation rate upon the Bank and its customers, including the conduct of sensitivity tests and current tests examining the repayment ability of the customers, according to the different segments of operation, while applying individual treatment in accordance with the findings, updating of assumptions regarding the different models in matters of credit risk and market risk. The Bank continues the follow-up and monitoring of risks, including those, the probability of their materialization increases as a result of the said changes, their implications and impact on the Bank.

OBJECTIVES AND STRATEGY

The Bank operates according to a multi-annual strategic plan validated by the Board of Directors. In November 2019, The Board of Directors approved an updated corporate strategy for the years 2019-2022. In the last several months, the Bank, led by the Board of Directors, acted to formalize corporate strategy for the years 2023-2025. The new corporate strategy was approved by the Board of Directors in December 2022. In the framework of the new strategy, new digital strategy was also formulated.

Management of the Bank is guided and directed by the Board of Directors and its committees, with respect to the strategy and business policy of the Bank. In this framework, the Board of Directors approves the quantitative and qualitative targets and goals as well as the lines of operation of the Bank.

The Board of Directors and its committees supervise and control the work of Management in everything relating to the implementation of the strategy and business policy, as approved by them. The Board of Directors approves also the comprehensive risk management policy, including the determination of different limitations to exposure regarding credit risk and market and liquidity risks. The various units of the Bank, of the branch layout and of the Head Office, operate within the framework of written procedures and circular letters, guiding them in their current operations. These procedures define, among other things, the authority of the different units of the Bank and the manner of operation which they have to adopt.

The Bank acts to strengthen its position among its customers, and is directed to provide updated and customized banking services adapted to their needs, in an efficient, professional and secured way, agreeing with the changing banking environment and maintaining a proportional level of risk.

Business focal points had been determined in the strategic plan, the aim of which is to lead forward the Bank in a competitive environment and subject to conditions of uncertainty. The plan contains super targets in terms of return on capital and efficiency ratios, and concurrently with an educated risk management, the bank emphasizes the following matters:

- Growth in chosen segments, while providing added value to its customers in accordance with the needs of each of them, including in the digital and technological response fields;
- Maintaining its leadership in the capital market and in the private banking segment, alongside the continuance of developing new and innovative tools in these areas;
- Segment focused growth in the business sector while strengthening the relationship with the customers;
- Activities in order to utilize the potential in the mortgage area;
- Focusing by the subsidiary company Massad and the brand names UBANK, PAGI and Otzar Hachayal on their unique niches of operation;
- Adjustment of the operating model to the futuristic banking world, concurrently with adjusting the service and customer's management model;
- Leading efficiency moves in expenditure, while making the manpower strength more efficient, improving processes, continuation of efficiency measures at the branches and continuing the transition to the digital banking channels;
- Striving to growth and exposure to new areas through cooperations.

Additional strategic processes conducted by the Bank in recent years included the infrastructure and computer strategy, a strategy for digital operations, the aim of which is to provide an advanced technological response to customers and a data strategy leveraging the multitude of information in the organization for the creation of a significant value to the Bank and its customers, and strategy for the branching area, the aim of which is to adjust the branching layout to the changing banking world.

Principal environmental, social, and governance aspects (ESG)

The Bank attributes great importance to the promotion of environmental, social and governance (ESG) aspects, in its business operations and invests relevant resources in this respect, in accordance with its business strategy. In this respect, the Bank gives importance to the coping with the climate crisis and the financial risks derived from it, and is acting to monitor those risks and manage them, while examining the effect on the Bank's business operations, concurrently with the examination of the Bank's activity, on a current basis, in respect of environmental, social and other aspects concerning corporate governance.

This year the Bank formed a comprehensive ESG strategy, in the framework of which a policy and multiannual targets were determined, focusing on several central areas, as derailed below:

- Integration of ESG aspects in the capital market area - within the framework of the Bank's leadership in the capital market, the Bank has decided to integrate ESG considerations in investment advisory services, and make information on the subject accessible to its customers, through the Bank investment consultants and trading systems. In this framework, the Bank acts to make accessible ESG information regarding different securities by way of the trading systems, and examines the possibility to integrate ESG scoring in the analysis methodology of the Bank for securities. Concurrently, the Bank concluded, a training layout in the matter, directed at bank investment consultants, with a view of assisting them in integrating the ESG area in consultation processes, in accordance with customer needs.
- Environmental and climate risk management regarding business credit - The Bank studies regularly, the processes of environmental risks with respect to material credit transactions, and strictly considers environmental risk aspects upon making credit granting decisions, to the extent that the matter is relevant to the transaction. On background of the significant developments in recent years regarding practices for the management of environmental risks, including the draft of the Supervisor of Banks dated December 25, 2022, in respect of principles for effective management of financial risks connected to the climate, the Bank conducts a renewed examination of the processes regarding evaluation and management of the environmental risk, while modifying them, to the extent possible, to accepted practices in the world. In this framework, the Bank is mapping the existing exposure in this area, examines their effect on its activity and is acting to adjust its risk appetite, including determination of goals and limitations.
- Promotion of financial understanding of Bank customers, with a focus on the capital market - the Bank is continuously acting to promote the financial understanding of its various customers, through digital means, such as study courses and video clips. The contents is presented on the Internet website of the Bank and published to customers, with the aim of expanding the scope of exposure to such content, and increase the financial knowledge of customers and assist them in making more educated financial decisions. Some of the contents are modified to the unique needs of customers belonging to specific sectors, such as small businesses and self-employed. Over and above the plentiful social value of this move, the Bank recognizes the importance of the financial knowledge of its customers, also as part of its risk management tools.
- Promotion of diversity in employment - Within the strategic focusing of the Bank Group on customers coming from different groups of population, through the different banking brands, the Bank sees great importance in attracting employees from divers' groups of the Israeli society.

PRINCIPAL ENVIRONMENTAL, SOCIAL AND GOVERNANCE INDICES

	2022	2021
Environmental		
Consumption of resources		
Consumption of electricity (in kw/h)	**24,116,663**	22,513,076
Carbon footprint		
Emission volume (in CO2 eq tons)	**12,607**	11,101
Social		
Employees		
Number of employees	**3,664**	3,663
Rate of female employees at the Bank	**66%**	66%
Volume of investment in learning and employees' training	**24,572**	18,281
Suppliers		
Rate of local suppliers	**97%**	97%
Social credit		
Balance of credit to tiny, small and middle market businesses (in NIS millions)	**28,683**	27,145
Of which: credit to tiny, small and middle market businesses guaranteed by the Government (in NIS millions)	**1,546**	1,937
Corporate governance		
Rate of external Directors	**50%**	50%
Rate of Directors with accounting and financial expertise	**100%**	100%
Rate of female Directors	**20%**	20%
Rate of female members of Management	**36%**	40%
Number of Board of Directors Committee meetings	**55**	57
Average period of service as Director (in years)	**7.6**	6.6

For additional information see the ESG report on the Bank's website.

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

PRINCIPAL ECONOMIC DEVELOPMENTS

Following are the principal economic development, which affected the economic environment in which the banking sector in Israel operates.

The year 2022 was marked by high levels of inflation, both in Israel and in leading economies around the world, crossing the upper limit of the targeted inflation range, in front of the exit from the Corona crisis, the continuing war in Ukraine and the following sanctions on Russia, which had contributed to intensifying the energy crisis in Europe and increased the global economic uncertainty.

This trend of rising inflation caused central banks to tighten the monetary policies and hike-up interest rates. In its last interest decision, published in February 2023, Bank of Israel noted that inflation in Israel in the past twelve months reached 5.4% and is found over the upper limit of the target. As of date of publication of the financial statements, the inflationary expectations are found within the targeted range.

In the last interest rate announcement (published in February 2023) Bank of Israel noted that economic activity in Israel is steadfast and the labor market continues to be tight, even though a certain moderation occurred in the last months of the year in the employment data, and there are signs of a certain slowdown in the growth rate.

GROWTH

The Research Division of Bank of Israel updated its forecasts in January, 2023, according to which the GDP is expected to grow in 2022 at the rate of 6.3% (against 6.0% in the forecast of October 2022), in 2023 at a rate of 2.8% (against 3.0% in the forecast of October 2022) and in 2024 at the rate of 3.5%. The Research Division of Bank of Israel estimates that in 2023 growth of the GDP would slow down, on background of expectations for a slowdown in growth of global trade and in the growth of the GDP in the developed countries, as well as in consequence of the rise in real-term interest rates in Israel within the range of the forecast.

CREDIT RISK OF THE ECONOMY

The risk level of the Israeli economy, as reflected by ratings of the rating agencies and by the capital market, is relatively low. The "Fitch" global rating agency ratified in March 2023, the credit rating of the State of Israel at a level of "A+" leaving it with a stable outlook. Fitch noted, that at this stage, it is unclear whether the proposed changes in the legal system of Israel, presently on the agenda, would have an impact on the credit rating of the State of Israel, similarly to reduced ratings experienced by other countries, which had undergone a significant institutional reform.

The "Moody's" global rating agency ratified on in January, 2023, the credit rating outlook of the State of Israel at the level of "A1" leaving it with a "positive" outlook. This, following Moody's raising in April 2022, the rating forecast for Israel from "stable" to "positive". It is noted, that Moody's has issued a report in which it noted, inter alia, that in its opinion, if the proposed changes in the legal system are implemented in full, this will lead to impairment in the power of the legal system with an ensuing adverse effect on the credit rating of the State of Israel.

The S&P global rating agency ratified in November, 2022, the credit rating of the State of Israel regarding the foreign currency debt, at the level of "AA-" with a stable outlook.

For details of the effect of the credit rating of the State of Israel on the capital adequacy ratio of the Bank, see the Chapter "Capital and capital adequacy".

STATE BUDGET

According to a preliminary assessment of the execution of the budget, made by the Accountant General at the Ministry of Finance, published in January 2023, a budgetary surplus was recorded in 2022, for the first time in 35 years. The budgetary

surplus for 2022, amounted to NIS 9.8 billion comprising 0.6% of the GDP (in contrast to deficits of NIS 69.2 billion in 2021 and NIS 160.1 billion in 2020).
The year 2022 was characterized by a high and exceptional growth in State's revenues, which came in addition to the exceptional growth in 2021, following the impressive recovery of the Israeli economy upon exiting the Corona crisis. State revenues in 2022 amounted to NIS 468 billion, as compared to NIS 412.5 billion in 2021 (a growth rate of 13.6%). The growth in State revenues stemmed from most revenue components headed by direct taxes. Total tax revenues increased by 13.7%, of which, direct tax revenues increased by 18.2% (the accelerated collection relating mainly to real estate taxes) and indirect tax revenues recorded growth of 8.1%.
The volume of Government expenditure in comparison with 2021, decreased by 4.8%, in view of the reduction in expenses designed to fight the Corona pandemic.
The change in the public debt, together with the significant growth in the activity of the economy have led to a sharp decline in the debt/GDP ratio. The ratio of the public debt to the GDP in 2022 decreased by approximately 7%, amounting to 60.9%, in contrast to 68.0% in 2021. Thus, completing a cumulative reduction of 10% in the past two years, returning to the decline course characterizing it prior to the Corona crisis. The ratio of the Government debt to the GDP also declined at a similar rate.
In the forecast by Bank of Israel, published in January 2023, the Research Division foresees, with respect to the fiscal policy, that in the years 2022 and 2023, the public debt/GDP ratio would be stabilized at 62% and would be reduced to 61% in 2024. Shifting to a budgetary surplus is expected in 2022, amounting to 0.3% in terms GDP percentages of (a Government deficit of 0.3% in the forecast of October 2022). The Government deficit is expected to reach 1.8% in 2023 (1.0% in the forecast of October 2022) and in 2024 is expected to amount to 2.1%.
On February 24, 2023, the Government approved the proposal of the Minister of Finance for the State budget and economic program for the years 2023 and 2024. The budget for 2023 amounts to NIS 484 billion, and that for 2024 amounts to NIS 514 billion. On March 23, 2023, the budget proposal is expected to be tabled before the Knesset for a first reading.

INFLATION

In continuation of the trend in 2021, a rise in inflation was recorded in 2022. The CPI "for the month" rose by 5.3%, as compared to a rise of 2.8% in the corresponding period last year, and also the "known" CPI rose by 5.3%, in comparison to a rise of 2.4% in the corresponding period last year.
In accordance with an update by the Research Department of Bank of Israel of January 2023, the rates of inflation expected for the years 2023 and 2024 amount to 3.0% (as against 2.5% in the previous forecast of October 2022) and 2.0%, respectively.
In the last interest decision published in February 2023, Bank of Israel noted that the level of inflation in the past twelve months is found above the upper limit of the target range, amounting to 5.4%, however, it is still lower than the level of inflation in most developed countries. The contracting monetary policy and moderation in economic activity worldwide, are expected, in the opinion of Bank of Israel, to lead to a certain slowdown in economic activity also in Israel, alongside the slowdown in the pace of inflation.
The monetary policy report by Bank of Israel of January 2023, states that as of the end of December 2022, inflationary expectations for the coming year, coming from different sources (the capital market and forecasters), are found within the target range, amounting to 2.5% and 2.9%, respectively.

HOUSING MARKET

The monetary policy report by Bank of Israel of January 2023, states that apartment prices increased in the past year by 20%, a significantly high rate as compared with those of recent years. Notwithstanding that, according to the apartment price Index of the Central Statistical Bureau (CSB), moderation in the annual rate of increase is evident in the months of October and November 2022. In 2022, the house owners residential services Index (new rental agreements Index) recorded an increase of 6.3%, the highest increase in the last fifteen years. A review of the residential property sector, issued by the

Chief Economist at the Ministry of Finance, noted that the level of transactions made in November 2022, was of the lowest levels recorded in the months of November of the past twenty years. The volume of mortgages taken in November 2022, reflects a decrease of 31%, as compared with the volume of mortgages in November of the previous year.
On the supply side, the continuous growth in the number of construction beginnings and permits, is not embodied as yet, in the completed building projects data, which remained at a low level, on background of extended construction periods.

LABOR MARKET

According to the manpower surveys published by the CBS, a slight increase to a level of 5.5% (246 thousand unemployed), was recorded in December 2022, in the wide range unemployment rate (among fifteen years old and over), as compared with a level of 5.4% (237.5 thousand unemployed) in November. The unemployment rate data are significantly lower in relation to December 2021, of 6% (262 thousand) and of 13% (553 thousand) in December 2020.
According to updated forecasts by the Research Division of Bank of Israel of January 2023, an increase in the rate of the wide range unemployment (among 25 years to 64 years old) is anticipated, from 3.2% in the forecast for 2022, to 4% in the years 2023 and 2024, a level higher than that prevailing prior to the Corona crisis (3.8%).

BANK OF ISRAEL INTEREST RATE

Following a long period, in which the Bank of Israel interest rate remained unchanged at a level of 0.1%, Bank of Israel raised the interest rate in the economy eight consecutive times in the course of the period from April 2022 to February 2023, from a level of 0.1% to 4.25%.
The last interest announcement of February 2023, stated that continuation of the pace of raising the interest will be determined in accordance with economic activity data and developments in inflation, in order to continue supporting attainment of the policy goals.

EXCHANGE RATE

In 2022, the rate of exchange of the shekel as against the US dollar rose by 13%. Since the beginning of 2023, the trend of the weakening shekel against the dollar continues, and exchange rates highly fluctuated in this period.

THE GLOBAL ENVIRONMENT

The worldwide slowdown in the level of economic activity continued in the course of 2022, and the risk of recession increased, inter alia, due to the combination of high inflation, monetary tightening, the continuing war in the Ukraine and the following sanctions on Russia, which also contribute to the intensification of the energy crisis in Europe and amplify the global economic uncertainty. Notwithstanding this, a certain decline in disruptions of the chains of supply took place in the second half of 2022, with a decline in transportation prices.
Since 2022, the global Purchase Managers' Index published by JP Morgan dropped by 10%, so that in December 2022, the Index dropped to a level of 48.6 points, as compared to a level of 54.2 points in December 2021. In the interest announcement (published in January 2023), Bank of Israel noted that the Purchase Managers' Index for the developed and emerging economies indicates continuation of the slowdown in the pace of economic activity. Inflation worldwide continues at a high level. In certain countries, specifically in the United States, a trend of moderation is evident. First signs of moderation in inflation were recorded also in the Eurozone and in Britain. On the other hand, the core inflation remained stable. In most countries, the inflation indices are found at significantly higher level than the targets of the central banks. Accordingly, the worldwide monetary tightening continues, though the leading central banks are slowing down the pace of interest hike ups.
In the US, the FED raised the interest rate from 0.25% in March 2022, to a level of 4.5% in December (the upper limit of the interest range), and later on, in February 2023, raised the interest to a level of 4.75%, the highest interest rate since 2007. In accordance therewith, the interest forecast, published by the FED in December 2022, in respect of the years 2023 and 2024, amounts to 5.1% and 4.1%, respectively.

The banking market in the US experienced a jolt, recently, with the publication of information regarding the collapse of two Banks, as well as concern for the collapse of an additional bank. In consequence thereof, prices of bank shares in the US dropped sharply, in view of investor apprehension regarding following additional impact. Notwithstanding the above, it is noted that the US Treasury, the FED and the Federal Deposit Insurance Corporation (FDIC) announced the taking of measures to reduce risks and protect customer funds. The Bank follows these developments and studies their possible implications. As of date of publication of the financial statements, no impact upon the Bank is anticipated. The Bank continues to follow whether there would be an impact on the banking system in the US.

In the Eurozone, the European Central Bank (ECB) has accelerated the process of monetary tightening, and in December, raised the interest rate for the fourth time in a row, by 0.5% to a level of 2.5% (two raisings of 0.75% in October and September and one raising of 0.5% in July) and thereafter, in February 2023 raised the interest to a level of 3.0%, the highest raising made by the ECB since its establishment.

In Britain, the monetary tightening policy of the central bank continues, on background of the recession in which the British economy is found, following the implications of the Brexit, the energy crisis and the rising inflation. In December the interest rate was raised for the ninth consecutive time, by 0.5%, to the level of 3.5%, and thereafter, in February 2023, the central bank raised the interest again to a level of 4.0%, the highest interest rate in Britain since 2008.

In the forecast published by the International Monetary Fund in January, 2023, the Fund updated upwards its forecasts for global growth in the years 2022 and 2023, to a growth rate of 3.4% in 2022 (3.2% in the forecast published in October) and to 2.9% in 2023 (2.7% in the forecast published in October). Growth in 2024 is expected to amount to 3.1%. These forecasts are still lower than the global average growth of 3.8%, existing in the period prior to the Corona crisis (in the years 2000 to 2019).

CAPITAL MARKET

Trading on the capital markets around the world, during the year 2022, was typified by considerable volatility and dropping quotations, on background of the continuing rise in interest rates in the leading economies. As regards the leading equities indices, the NASDAQ Index dropped by 32%, the S&P Index dropped by 19%, and the Dow Jones Index dropped by 9%. Also, the leading Stock Exchanges in Europe recorded outstanding decline in the leading indices.

Prices of government bonds worldwide also present a trend of steep decline, in view of the reduction in supply of liquidity by the central banks, acceleration in inflation and expectation for further interest hikes in the leading economies.

On the local market, in total for the year 2022, decline was recorded by most share indices, with the TA-25 and the TA-90 indices dropping by 11.8% on an average.

An outstanding decline was recorded also on the segmental indices, with the TA Biomed Index dropping by 51%, the TA-Hi-Tech Index and the TA-Real Estate Index dropping at a similar rate of 30%. Positively outstanding was the Oil and Gas Index that shot up by 35%, due to the global demand for natural gas.

The bond market recorded decline in quotations in most government and corporate bonds, due to the rising interest rates and similarly to the global trend. The General Government Bonds Index - Tel Gov-General - dropped by 9% in 2022, and the corporate bond indices – Tel Bond-20 and Tel Bond-40 dropped in 2022 by 10% and 8%, respectively.

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 1,667 million, as compared to NIS 1,405 million in 2021, an increase of 18.6%.

The return of net profit to the capital attributed to the shareholders of the Bank amounted to 16.6%, as compared to 14.7% in 2021.

Net profit attributed to the shareholders of the Bank, in the fourth quarter of 2022, amounted to NIS 536 million, compared with NIS 333 million in the fourth quarter of 2021, an increase of 61.0%.

The return of net profit to the capital attributed to the shareholders of the Bank in the fourth quarter of the year amounted to 20.7% compared with 13.3% in the corresponding quarter last year.

CONDENSED STATEMENT OF INCOME

	Year ended December 31		
	2022	**2021**	**change**
		NIS million	in %
Net financing earnings [(1)]	**3,916**	3,097	26.4
Expenses (income) from credit losses	**123**	(216)	
Net financing earnings after expenses from credit losses	**3,793**	3,313	14.5
Fees and other income	**1,498**	1,453	3.1
Operating and other expenses	**2,755**	2,652	3.9
Profit before taxes	**2,536**	2,114	20.0
Provision for taxes on profit	**884**	728	21.4
The bank's share in profit of equity-basis investee, after taxes	**74**	69	7.2
Net profit:			
Before attribution to non-controlling interests	**1,726**	1,455	18.6
Attributed to non-controlling interests	**(59)**	(50)	18.0
Attributed to shareholders of the Bank	**1,667**	1,405	18.6
Net return of equity attributed to the Bank's shareholders	**16.6%**	14.7%	

(1) The items of profit and loss above were presented in a different format then the condensed statement of income. The change is expressed by sorting of net interest income and non-interest income to the net financing earnings.

DEVELOPMENT IN INCOME AND EXPENSES

The Net Financing earnings

Set out below is the composition of net financing earnings(2)

	Year ended December 31	
	2022	**2021**
		NIS million
Interest income	**5,161**	3,150
Interest expenses	**1,358**	356
Net interest income	**3,803**	2,794
Non-interest financing income	**113**	303
Net financing earnings	**3,916**	3,097
Elimination of non-current activities:		
Reconciliations to fair value of derivative instruments	**(5)**	(1)
Income (losses) from realization and reconciliations to fair value of bonds	**(31)**	21
Earnings (losses) from investments in shares	**(64)**	233
Total non-current activities	**(100)**	253
Financing earnings from current activity (1)	**4,016**	2,844

(1) Of which: in respect of changes in the CPI- an income in the amount of NIS 237 million in the year 2022, compared with NIS 98 million in the year 2021.
(2) In order to analyze profit from financing activity, in addition to interest income and expenses, non-interest financing income and expenses must also be included in profit. This income includes financing income in respect of derivative instruments which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other things, the effect of the time value in the fair value of derivatives, which is integral part of interest rate risk management and the effect of the rate of rise in the known CPI on derivatives, which is an integral part of the management of the exposure to the CPI risk.

The financing earnings from current activity amounted to NIS 4,016 million, as compared to NIS 2,844 million in 2021, an increase of 41.2%. The increase stemmed from the effect of the changes in the CPI and from the effect of the increase in the volume of the business activity.

Set out below are principal data in respect of income and expenses rates:

	Year ended December 31	
	2022	**2021**
		Percent
Income rate on assets bearing interest	**3.16**	2.08
Expense rate on liabilities bearing interest	**1.41**	0.43
Total interest spread	**1.75**	1.65
Ratio of net interest income to balance of assets bearing interest	**2.33**	1.84

In the year 2022, an increase occurred in the ratio of net interest income to the balance of interest-bearing assets, compared with 2021, in a rate of 0.49%. On one hand, a raise derived from an increase in net interest income, mainly due to a raise in the rates of the NIS interest and Dollar interest and an increase in the linkage differentials, due to the raise in the "known CPI", between the periods. On the other hand, a decline deriving from the increase in the average balance of interest bearing-assets, occurred.

For additional information in respect of rate of income and expenses of the Bank and its consolidated companies and analysis of the changes in interest income and expenses, see appendix 1 to the chapter on corporate governance, appendices.

Expenses from credit losses totaled to NIS 123 million in 2022 compared with an income of NIS 216 million in 2021, an increase of NIS 339 million, deriving from the collective provision for credit losses.

In 2022, the expenses in respect of credit losses derived from an increase in the collective expense for credit losses, in the amount of NIS 168 million, due to an increase in the volume of sound credit and from an increase in the collective provision for credit losses, deriving from the possible implications of the changes in the macro-economic environment, domestic and global.

In 2021, an income in respect of credit losses, in the amount of NIS 176 million, was recorded, deriving from a decrease in the collective provision, explained by an improvement in the macro-economic indices, following the exit from the corona crisis, and the improvement in the indicators pointing on the risk level embedded in the credit portfolio of the Bank.

Set out below are details of expense (income) from credit losses in respect of debts and off-balance sheet credit instruments:

	Year ended December 31	
	2022	**2021**
		NIS million
Individual expense from credit losses	**94**	102
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(139)**	(142)
Net individual income from credit losses	**(45)**	(40)
Collective expense (income) from credit losses	**168**	(176)
Total Expense (income) from credit losses	**123**	(216)
Of which:		
Expense (income) in respect of commercial credit	**81**	(212)
Expense (income) in respect of housing credit	**25**	(6)
Expense in respect of other private credit	**17**	2
Ratio of individual expense (income) from credit losses to average total credit to the public	**(0.04%)**	(0.04%)
Ratio of collective expense (income) from credit losses to average total credit to the public	**0.15%**	(0.19%)
Ratio of total expense (income) from credit losses to average total credit to the public	**0.11%**	(0.23%)

As to the initial implementation of accounting standards accepted in US banks, in respect of credit losses deriving from financial instruments, as detailed in item 326 to the Codification (ASC 326), see Note 1.C. to the financial statements.

For additional information regarding expenses for credit loss, see Chapter "Review of Risks" below.

Fees income totaled NIS 1,489 million in 2022, compared with NIS 1,444 million in 2021, an increase of 3.1%.

Set out below are details of fees income:

	Year ended December 31	
	2022	**2021**
		NIS million
Account management	**214**	206
Credit cards	**128**	119
Transactions in securities	**744**	760
Conversion differentials	**195**	168
Fees from financing transactions	**98**	82
Other Fees	**110**	109
Total Fees	**1,489**	1,444

Operating and other expenses totaled NIS 2,755 million in 2022 compared with NIS 2,652 million in 2021, an increase of 3.9%.

Set out below are details of operating and other expenses:

	Year ended December 31	
	2022	2021
		NIS million
Salaries and related expenses	**1,680**	1,601
Maintenance and depreciation of premises and equipment	**332**	340
Amortization of intangible assets	**113**	105
Other expenses	**630**	606
Total operating and other expenses	**2,755**	2,652

Salaries and related expenses totaled NIS 1,680 million in 2022 compared with NIS 1,601 million in 2021, an increase of 4.9%. The increase explained mainly by provision for bonuses.

Maintenance and depreciation of buildings and equipment expenses amounted to NIS 332 million in comparison to NIS 340 million in 2021, a decrease of 2.4%, stemming from reduction in the volume of the real estate assets in the Group due to the efficiency measures.

Amortization of intangible assets amounted to NIS 113 million in 2022, compared with NIS 105 million in 2021, an increase of 7.6%, stemming from an increase in the volume of investment in software assets.

Other expenses totaled NIS 630 million in 2022 compared with NIS 606 million in 2021, an increase of 4.0%, stemming mainly from an increase in advertising and marketing expenses, insurance expenses, computer expenses and expenses in respect of legal actions.

The provision for taxes on operating earnings amounted to NIS 884 million in 2022 compared with NIS 728 million in 2021. The effective tax rate as a proportion of earnings before taxes amounted to 34.9% in 2022, compared with 34.4% in 2021, compared with statutory tax rate of 34.2%.

The Bank's share in the operating earnings of investee company after the tax effect amounted in 2022 to NIS 74 million, compared to NIS 69 million in 2021.

The total comprehensive profit attributed to the shareholders of the Bank amounted in 2022 to NIS 1,545 million. This amount was affected by the net profit for the period attributed to the shareholders of the Bank of NIS 1,667 million, by other comprehensive income in respect of employees' benefits in an amount of NIS 152 million and by other comprehensive loss in respect of adjustments of available-for-sale bonds in an amount of NIS 274 million.

For details of income and expenses by quarters for the years 2021 and 2022 see appendix 3 of corporate governance section, appendices.

INFORMATION AND COMPUTER SYSTEMS

MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF") is a subsidiary of the bank and supplies IT to the bank and to other companies in the group.

MATAF manages and operates entire computerization infrastructure, systems, software products and cyber defense needed to the Bank and the Group including interfaces and channels connected to this infrastructure.

Within the framework of its operation, MATAF invests considerable resources in digital, data and innovation, and implements the digital and data strategy of the Bank Group.

Furthermore, MATAF applies a multi-annual program for the modernization of the computer and core systems infrastructure, and provides tools by which the Bank Group improves efficiency, assisted by automation and robotics, while maintaining an up-to-date infrastructure and high capabilities regarding protection against cyber-attacks.

INVESTMENTS AND EXPENSES IN RESPECT OF THE INFORMATION TECHNOLOGY NETWORK

Software purchased by the Group is measured at cost, which usually includes transaction costs and deduction of accrued depreciation and impairment losses.

Costs relating to the development of software for the purpose of own use were discounted only if: the initial phase of the project is completed; and Management, which has the appropriate authority, approved and is committed to finance, directly or indirectly, a project for the development of software, and that it is anticipated that the development will be completed and that the software would create future economic benefits. The following costs are being discounted during the development of software for own use: direct costs of services consumed and direct labor costs of employees directly related to the software development work. Other costs in respect of development activity and expenses in the initial phase of the project are recognized in profit and loss as incurred.

DETAILS OF EXPENSES AND INVESTMENTS IN INFORMATION SYSTEMS CARRIED OUT:

Additions to assets in respect of the information technology system not charged as an expense:

	Year 2022				Year 2021			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Costs in respect of wages and related expenses	**39**	**-**	**-**	**39**	36	-	-	36
Outsourcing costs	**4**	**-**	**-**	**4**	6	-	-	6
Costs of acquisitions or usage licenses	**85**	**-**	**-**	**85**	91	-	-	91
Costs of equipment, buildings and land	**-**	**20**	**-**	**20**	-	18	-	18
Total	**128**	**20**	**-**	**148**	133	18	-	151

Balances of assets in respect of the information technology system:

	As of December 31, 2022				As of December 31, 2021			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Total depreciated cost	**311**	**62**	**2**	**375**	294	65	2	361
Of which: in respect of wages and related expenses	**107**	**-**	**-**	**107**	105	-	-	105

Expenses in respect of the information technology system as included in the statement of profit and loss:

	Year 2022				Year 2021			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Expenses in respect of wages and related expenses	**212**	**3**	**-**	**215**	206	3	-	209
Expenses in respect of acquisitions or usage licenses not discounted to assets	**65**	**-**	**-**	**65**	65	-	-	65
Outsourcing expenses	**27**	**19**	**-**	**46**	21	18	-	39
Depreciation expenses	**111**	**23**	**-**	**134**	103	24	-	127
Other expenses	**-**	**2**	**32**	**34**	-	1	31	32
Total	**415**	**47**	**32**	**494**	395	46	31	472

For additional information regarding technological changes and innovation, see chapter corporate governance, additional information.

COMPOSITION AND DEVELOPMENT OF ASSETS, LIABILITIES, CAPITAL AND CAPITAL ADEQUACY

The consolidated balance sheet as of December 31, 2022 amounted to NIS 195,955 million compared with NIS 180,470 million as of December 31, 2021, an increase of 8.6%.

A. Set out below are developments in the principal balance sheet items:

	As of December, 31		
	2022	**2021**	**Change**
		NIS million	%
Credit to the public, net	**115,961**	101,164	14.6
Securities	**16,010**	15,091	6.1
Cash and deposits with banks	**57,130**	57,370	(0.4)
Deposits from the public	**168,269**	153,447	9.7
Bonds and subordinated capital notes	**4,749**	3,356	41.5
Capital attributed to the shareholders of the Bank	**10,559**	10,003	5.6

B. Set out below are developments in the principal off-balance sheet financial instruments:

	As of December, 31		
	2022	**2021**	**Change**
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**572**	179	219.6
Guarantees and other liabilities	**10,860**	9,146	18.7
Unutilized credit lines for derivatives instruments	**3,303**	2,715	21.7
Unutilized revolving credit and other on-call credit facilities	**11,672**	11,738	(0.6)
Unutilized credit lines for credit card facilities and facilities for the lending of securities	**9,991**	9,198	8.6
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**7,429**	8,832	(15.9)
Total	**43,827**	41,808	4.8

Derivative financial instruments:

	December 31, 2022			December 31, 2021		
	Positive fair value	**Negative fair value**	**Face value**	**Positive fair value**	**Negative fair value**	**Face value**
						NIS million
Interest contracts	**519**	**301**	**21,741**	157	256	18,215
Currency contracts	**1,003**	**719**	**66,898**	555	785	73,326
Contracts in respect of shares	**1,301**	**1,300**	**55,142**	951	951	72,711
Commodities and other contracts	**2**	**2**	**132**	46	46	1,117
Total	**2,825**	**2,322**	**143,913**	1,709	2,038	165,369

Credit to the public, net as of December 31, 2022 amounted to NIS 115,961 million compared with NIS 101,164 million as of December 31, 2021, an increase of 14.6%.

The following is information on credit to the public by linkage segment:

	As of December, 31				Segment's share of credit to the public on December, 31	
	2022	2021		Change	2022	2021
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**95,804**	84,013	11,791	14.0	**82.6**	83.0
- CPI-linked	**14,095**	12,634	1,461	11.6	**12.2**	12.5
Foreign currency (including f-c linked)	**5,342**	3,819	1,523	39.9	**4.6**	3.8
Non-monetary items	**720**	698	22	3.2	**0.6**	0.7
Total	**115,961**	101,164	14,797	14.6	**100.0**	100.0

Gross Credit to the public, before provision for credit losses, by segment of activity

	As of December, 31		
	2022	2021	Change
		NIS million	%
Large business segment	**27,389**	18,571	47.5
Medium business segment	**8,215**	6,101	34.7
Small and minute business segment	**20,468**	21,044	(2.7)
Household segment excluding housing loans	**23,571**	22,622	4.2
Housing loans	**35,474**	32,260	10.0
Private banking segment	**97**	95	2.1
Institutional entities	**2,010**	1,547	29.9
Total	**117,224**	102,240	14.7

Total credit risk to the public is comprised of balance-sheet credit risk, which includes credit to the public, investments in bonds of the public and assets deriving from financial derivative instruments purchased by the public, and from off-balance-sheet credit, which includes transactions in off-balance-sheet financial instruments, unutilized credit lines and liabilities for the granting of credit.

Total credit risk to the public amounted to NIS 159,471 million on December 31, 2022 compared with NIS 143,872 million on December 31, 2021, an increase of 10.8%.

Set out below is information on the distribution of total credit risk to the public by sectors of the economy.

Sector	As of December 31, 2022		As of December 31, 2021		
	Total credit risk	Sector's share in total credit risk	Total credit risk	Sector's share in total credit risk	change
	NIS million	%	NIS million	%	%
Financial services (including holding companies)	**22,654**	**14.2**	19,307	13.4	17.3
Construction and real estate	**24,876**	**15.6**	20,409	14.2	21.9
Industry	**11,379**	**7.1**	10,738	7.5	6.0
Commerce	**9,953**	**6.2**	7,608	5.3	30.8
Private customer, including housing loans	**74,721**	**46.9**	71,433	49.6	4.6
Others	**15,888**	**10.0**	14,377	10.0	10.5
Total	**159,471**	**100.0**	143,872	100.0	10.8

Set out below is the sector-specific distribution of the six largest borrowers at the Group (by size of gross indebtedness before deduction of collateral whose deduction is permissible for the purpose of limiting the indebtedness of a borrower and group of borrowers):

		As of December 31, 2022			
Borrower no.	Sector of the economy	Balance-sheet credit risk (*)	Off-balance-sheet credit risk	Total credit risk	Total credit risk after permitted deductions
					NIS million
1.	Financial services	**666**	**444**	**1,110**	**642**
2.	Financial services	**1,001**	**-**	**1,001**	**1,001**
3.	Construction and Real estate - construction	**648**	**269**	**917**	**886**
4.	Financial services	**822**	**15**	**837**	**30**
5.	Financial services	**134**	**701**	**835**	**835**
6.	Financial services	**631**	**204**	**835**	**835**

		As of December 31, 2021			
Borrower no.	Sector of the economy	Balance-sheet credit risk (*)	Off-balance-sheet credit risk	Total credit risk	Total credit risk after permitted deductions
					NIS million
1.	Financial services	1,177	334	1,511	625
2.	Construction and Real estate - construction	800	254	1,054	997
3.	Financial services	1	1,000	1,001	1,001
4.	industry	18	863	881	881
5.	Financial services	674	64	738	368
6.	Financial services	578	4	582	28

* Including credit to the public, investment in bonds and other assets in respect of derivative instruments.

On the basis of the distribution of credit by size of borrower indebtedness on December 31, 2022, as stated in Note 29.c to the financial statements, 43% of the Group's total credit risk was granted to borrowers whose total credit reached an amount of up to NIS 1.2 million per borrower. Credit amounts of between NIS 1.2 million and NIS 20 million accounted for 21% of total credit risk, and credit amounts of over NIS 20 million accounted for 36% of the Group's total credit risk.

Set out below are balances of the total credit risk of the borrowers included in the upper brackets in Note 29.c to the financial statements, exclusive of collateral whose deduction is permissible for the purpose of calculating the restriction on single-borrower indebtedness, in the consolidated and at the Bank:

						Consolidated and The Bank
						December 31, 2022
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	**3,936**	**3,046**	**6,982**	**2,847**	**4,135**	**13**
From 800,000 to 1,200,000	**3,902**	**1,633**	**5,535**	**1,306**	**4,229**	**6**
Total	**7,838**	**4,679**	**12,517**	**4,153**	**8,364**	**19**

						Consolidated and The Bank
						December 31, 2021
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	2,450	1,400	3,850	1,032	2,818	7
From 800,000 to 1,200,000	819	2,117	2,936	57	2,879	3
From 1,200,000 to 1,600,000	1,177	334	1,511	886	625	1
Total	4,446	3,851	8,297	1,975	6,322	11

For detailed information regarding credit risk, see chapter of risks review below, additional supervisory disclosures and risk report at the Bank's internet site.

The investment in securities totaled NIS 16,010 million compared with NIS 15,091 million at the end of 2021, an increase of 6.1%.

Set out below is the composition of the securities portfolio:

	As of December 31,		**Share of total securities**	
	2022	**2021**	**2022**	**2021**
		NIS million		%
Government bonds	**14,691**	13,542	**91.7**	89.7
Banks' bonds (1)	**655**	359	**4.1**	2.4
Other bonds (corporate)	**219**	447	**1.4**	3.0
Other bonds (corporate guaranteed by governments)	**-**	11	**-**	0.1
Shares (2)	**445**	732	**2.8**	4.8
Total	**16,010**	15,091	**100.0**	100.0

(1) The balance includes bonds that were issued by banks' issuing companies.
(2) Investment in shares includes inter alia investment in private equity funds, investment in foreign currency shares and ETF, investment in hedging funds and investment in shares and ETF in NIS.

Set out below is the distribution of the securities portfolio by linkage segments:

	As of December, 31				Segment's share of total securities	
	2022	2021		change	2022	2021
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**6,806**	8,323	(1,517)	(18.2)	**42.5**	55.2
- CPI-linked	**1,193**	241	952	395	**7.5**	1.6
Foreign currency denominated & linked	**7,566**	5,795	1,771	30.6	**47.2**	38.4
Non-monetary items	**445**	732	(287)	(39.2)	**2.8**	4.8
Total	**16,010**	15,091	919	6.1	**100.0**	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on December 31, 2022:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**240**	**62**	**143**	**445**
Local currency government bonds	**7,554**	**-**	**-**	**7,554**
Local currency corporate bonds	**331**	**114**	**-**	**445**
Foreign-currency and f-c linked bonds	**41**	**7,525**	**-**	**7,566**
Total	**8,166**	**7,701**	**143**	**16,010**
% of portfolio	**59.8**	**39.7**	**6.5**	**100.0**

* Indicative price- An indication determined by the Bank and which is based mainly on price quotations obtained from an external entity or entities specializing in the matter, and the remainder is based on internal models determined by the Bank.

** Counter-party price- Price quotation obtained from the entity with which the transaction is conducted.

Below are additional details of bonds denominated in and linked to foreign currency, which are not asset-backed, by country/continent:

	As of December, 31	
	2022	2021
		NIS million
Israel (incl. Israel Government - NIS 3,454 million, 31.12.21 - NIS 4,079 million)	**3,495**	4,137
USA (incl. US Government - NIS 3,683 million, 31.12.21 - NIS 1,342 million)	**3,791**	1,396
France	**27**	26
Canada	**106**	26
Germany	**-**	47
Far East, Australia and others (1 country; 31.12.21 - 3 countries)	**38**	67
Europe - others (4 countries; 31.12.21 - 3 countries)	**109**	96
Total	**7,566**	5,795

It should be noted that there is no issuer (except the Israel and US Governments) whose bond balance exceeds 0.4% of the shareholders' equity of the Bank.

Set out below are additional details on local currency corporate bonds by economic sectors:

	As of December, 31	
	2022	2021
		NIS million
Electricity and water	**44**	88
Construction and real estate	**35**	138
Financial services	**23**	24
Banks	**295**	115
Industry	**12**	21
Commerce	**-**	14
Transportation	**36**	45
Total	**445**	445

Set out below is the composition of the foreign-currency bond portfolio at the Bank Group:

- **Bonds denominated in or linked to foreign currency** - amounting to NIS 7,566 million (Dollar 2,150 million) (foreign currency denominated Israel Government bonds amounting to NIS 3,454 million, and bonds of US Government amounting to NIS 3,683 million). All of the foreign bonds are investment grade and of which 98% is rated A or higher. This portfolio is diversified, in a manner whereby exposure to any single issuer (excluding governments) does not exceed 0.6% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 2 years. The balance of unrealized gross losses (included in shareholders' equity under reconciliations to fair value in respect of the presentation of bonds available for sale) as of the report date in respect of this portfolio amounted to NIS 17 million (Dollar 5 million) compared with gains of NIS 53 million (Dollar 17 million) on December 31, 2021.

The balance of losses, net (before tax effect) included in other comprehensive profit, in respect of the difference between fair value of available for sale bonds and their amortized cost, as of December 31, 2022 amounted to NIS 336 million (NIS 206 million after the tax effect).
As of March 5, 2023, the balance of gross losses amounted to NIS 423 million (NIS 261 million after the tax effect).

Cash and deposits at banks on December 31, 2022 totaled NIS 57,130 million compared with NIS 57,370 million at the end of 2021, a decrease of 0.4%.

Deposits from the public on December 31, 2022 totaled NIS 168,269 million compared with NIS 153,447 million at the end of 2021, an increase of 9.7%.

Set out below is the distribution of deposits from the public by linkage segments:

	As of December, 31				Segment's share of total deposits from the public on December, 31	
	2022	2021		Change	2022	2021
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**130,157**	120,343	9,814	8.2	**77.4**	78.4
- CPI-linked	**5,990**	6,298	(308)	(4.9)	**3.5**	4.1
Foreign currency denominated & linked	**31,402**	26,108	5,294	20.3	**18.7**	17.0
Non-monetary items	**720**	698	22	3.2	**0.4**	0.5
Total	**168,269**	153,447	14,822	9.7	**100.0**	100.0

Deposits from the public by segment of activity

	As of December, 31		
	2022	2021	Change
		NIS million	%
Large business	**17,753**	15,553	14.1
Medium business	**6,834**	7,028	(2.8)
Small and minute business	**27,325**	25,949	5.3
Household	**68,122**	63,792	6.8
Private banking	**10,430**	9,253	12.7
Institutional entities	**37,805**	31,872	18.6
Total	**168,269**	153,447	9.7

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of December 31, 2022, amounted to NIS 392 billion, as compared to NIS 448 billion at the end of 2021, a decrease of 12.5%. The decrease in the volume customers' securities in 2022, derived mainly from the decline in the markets and the transfer to deposits, due to the raise of the interest rate.

Bonds and deferred debt notes amounted at the end of the year to NIS 4,749 million, as compared with NIS 3,356 million at December 31, 2021, an increase of 41.5%.

In the month of March 2022, First international issuance Ltd. a wholly owned subsidiary of the Bank, issued on public placement subordinated capital notes with loss absorption mechanism, the face value of which amounted to NIS 300 million, in consideration of NIS 300 million.

In the month of June 2022, First international issuance Ltd. issued on public placement, by way of extensions of the series, subordinated capital notes with loss absorption mechanism, the face value of which amounted to NIS 608 million, in consideration of NIS 569 million.

In the month of September 2022, First international issuance Ltd. a wholly owned subsidiary of the Bank, issued on public placement subordinated capital notes with loss absorption mechanism, the face value of which amounted to NIS 800 million, in consideration of NIS 800 million.

The considerations of the placements were deposited with the Bank. The Bank is obligated to fulfill the terms of the subordinated capital notes which were issued.

For details regarding assets and liabilities according to quarters in the years 2021 and 2022, see Appendix 5 to the Chapter "Corporate governance", appendices.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on December 31, 2022 to NIS 10,559 million, as compared with NIS 10,003 million on December 31, 2021, an increase of 5.6%.

The change in capital attributed to the shareholders of the Bank was affected by the net profit for the period amounting to NIS 1,667 million, by other comprehensive income in respect of employees' benefits in an amount of NIS 152 million. On the other hand, a decrease in capital occurred due to dividends paid in the amount of NIS 945 million, other comprehensive loss in respect of adjustments of available-for-sale bonds in an amount of NIS 274 million and from the initial implementation of accepted accounting standards in the US, in respect of anticipated credit losses, in the amount of NIS 44 million.

CAPITAL ADEQUACY

Minimum capital ratios

The Bank implement Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "Measurement and capital adequacy" as were amended in order to reconcile them with the Basel guidelines. In accordance with Proper Conduct of Banking Business Directives regarding minimum capital ratios, the Bank is required to maintain a minimum Tier I equity capital ratio of 9% and a comprehensive capital ratio of 12.5%, being a banking corporation, the total consolidated stated assets of which does not exceeds 24% of total stated assets of the banking sector.

To these minimal capital ratios an additional capital requirement was added at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date, except for housing loans granted during the period of the provisional instruction, as mentioned below.

On the background of the spreading of the Coronavirus and as part of the adjustment to Proper Conduct of Banking Business directives, the Supervisor of Banks published, Proper Conduct of Banking Business Directive No.250, which, inter alia, contained the Provisional Instruction concerning the update of Directive 201, which includes a reduction of 1% of the capital requirements applying to banks and an update to Directive 329, which cancels the demand of additional 1% applying to housing loans for the purpose of the purchase of a residential apartment granted in the period from March 19, 2020 to September 30, 2021, and to housing loans, secured by a mortgage on an apartment, not for the purpose of purchasing rights in real estate (hereinafter - "loans for any purpose"), granted since March 19, 2020.

All along the crisis period, the Supervisor of Banks published updates extending the effect of the provisional instruction. On December 27, 2021, the Supervisor of Banks issued a letter, according to which, the effect of the Provisional Instruction expires as from January 1, 2022. Likewise, the letter amended Proper Conduct of Banking Business Directive No. 329 regarding limitations on housing loans, according to which, the additional capital requirement of 1% shall apply to loans for residential purposes only and not to loans for any other purpose.

In view of all that stated above, the minimal Tier I equity capital ratio and the minimal comprehensive capital ratio required from the Bank by the Supervisor of Banks, amount on a consolidated basis, as of December 31, 2022, to 9.24% and 12.50%, respectively.

In addition to the above, the process of setting the capital goals was based on the following main parameters:

- The findings of the ICAAP based on the risk profile of the Group, taking into consideration the business goals of the Group and the planned growth.
- The result of the stress tests as detailed below.
- The capital goals comprise the higher of the capital requirement according to the findings of the ICAAP and that required by the stress tests.
- Conservativeness coefficient and confidence cushion combining estimates and forecasts in respect of the risk profile and capital base.

For detailed information, see the risk report for 2022 on the Bank's website.

The internal capital goals as were set by the Board of Directors are as follows:

- In a regular business situation - Tier I equity capital will be no less than 9.25%, and the ratio of the comprehensive capital will be no less than 12.50%.
- In stress situations - the ratio of Tier I equity capital shall not be less than 6.50%, and the ratio of comprehensive capital shall not be less than 9.00%.

The capital goals take into consideration the risks to which the Bank is exposed to, the main of which are: credit risks, financial risks (including interest risk), operational risks including cyber and data protection, information technology risk, compliance risk and anti-money laundering risk, strategy risk, legal risk, reputation risk and model risk. All of this is carried out in congruence with the dialog with the Bank of Israel.

Stress tests

The Bank implements infrastructure of stress tests in order to examine the capital propriety and examines the capital ratios according to the triennial capital planning. The outline includes, inter alia, holistic stress tests, "rolling" over three years, in respect of credit risks, financial risks, operational risks including cyber, AML, compliance, strategy, reputation, operational etc. The outline of the stress tests also includes adjustments to the current economic environment.
For detailed information, see the risk report for 2022 on the Bank's website.

Basel 3 guidelines

According to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% in each following year until January 1, 2022. Accordingly, as from January 1, 2021 the maximum rate of instruments qualified as regulatory capital amounts to 10%, and as from January 1, 2022, the transitional instructions have expired and nonqualified capital instruments may no longer be recognized as regulatory capital.

Letter of the Bank of Israel in respect of operational efficiency

On January 12, 2016, Bank of Israel issued a letter, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the board of directors of a banking corporation has to outline a multi-annual program for the improvement of efficiency.
A banking corporation that conforms with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program. On December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines, until December 31, 2021.

- A decision was taken in the third quarter of 2018, for the merger of Otsar Hachayal, and accordingly, on January 1, 2019, Otsar Hachayal merged with and into the Bank. In respect of this move, the Group has recorded an enlarged allowance for severance compensation in the amount of NIS 82 million. (NIS 53 million after the tax effect). Save for the said relief, the implementation of efficiency measures as of December 31, 2022, would have led to an additional reduction of 0.01% in the capital adequacy ratios.
- On July 28, 2020 and on November 3, 2020, the Board of Directors approved an efficiency plan, according to which 60 regular employees of the Bank, belonging to the defined target population, will be allowed to opt for early retirement under preferred conditions.

  The plan increased other comprehensive loss (gross) in an amount of NIS 48 million, in respect of severance compensation liability and post-retirements benefits.

In addition, in the fourth quarter of the year 2020, an additional provision for enlarged severance compensation was recorded, in an amount of NIS 50 million, in respect of another early retirement anticipated in the coming years. Total net effect, after tax in respect of these actions amounted to NIS 65 million. Save for the said relief, the implementation of efficiency measures as of December 31, 2022, would have led to an additional reduction of 0.04% in the capital adequacy ratios.

Initial implementation of accounting principles in the matter of expected credit losses

Starting with January 1, 2022, the Bank applies the new rules regarding provisions for credit losses, while recognizing in retained earnings the cumulative effect at date of initial implementation.
On December 1, 2020, the Supervisor of Banks published a letter in the matter of "regulatory capital - effect of implementation of accounting principles regarding expected credit losses", which included, inter alia, an update of Proper Conduct of Banking Business Directive No. 299, according to which, it is stated that to the extent that as a result of the initial implementation of these rules, the Tier I equity capital of a banking corporation has declined, then the bank may spread the amount of the decline over a period of three years (hereinafter – "the transition period"). Save for this relief, as stated, the initial implementation of the said rules, would have led to an additional decline of 0.03% in the capital adequacy ratios as of December 31, 2022.

Additional allocation of capital in respect of highly leveraged financing of the acquisition of land

On May 22, 2022, the Supervisor of Banks published an updating to Proper Conduct of Banking Business Directive No. 203 (Measurement and capital adequacy) designated to treat exposure in the construction and real estate sector. According to this letter, loans extended to finance the acquisition of land for development or construction purposes, of a ratio exceeding 80% of the value of the purchased property (LTV), shall be weighted at an increased weight of 150%, with the exception of loans financing the purchase of agricultural land that has no zoning outlook or in respect of which there is no intention of applying for planning consent and loans for the acquisition of land for self-use of a borrower who is not classified to the construction and real estate segment.
Subsequential to this, the Bank adopted the relief set in the letter, according to which, the effect of the change in the risk weight on the capital ratio, in respect of the balance of loans as of June 30, 2022, may be spread in constant quarterly rates until June 30, 2023. Save for this relief, as stated, as of December 31, 2022, the implementation would have decreased tier 1 equity capital and the comprehensive equity capital in the rates of 0.06% and 0.08%, respectively.

Directives concerning capital allocation in respect of derivative financial instruments

In March 2014, The Basel Committee on Banking Supervision published updates to Basel 3 instructions, among which was a new instruction regarding "the standard approach for the computation of exposure to counterparty credit risk" (SA-CCR).
On December 1, 2021, the Supervisor of Banks published a letter updating Proper Conduct of Banking Business Directives, which included, inter alia, the addition of Proper Conduct of Banking Business Directive No. 203A in the matter of the treatment of counterparty credit risk in accordance with SA-CCR, replacing approaches existing at the present time within the framework of Directive 203 for the computation of exposure to a counterparty in the event of failure. The Bank implements the Directive as of July 1, 2022. The implementation of the Directive decreased tier 1 equity capital and the comprehensive equity capital as of December 31, 2022, in the rates of 0.05% and 0.07%, respectively, this as a result of an increase in the amount of risk assets in respect of exposure to counterparty credit risk in an amount of NIS 520 million.

The effect of the credit ratings of the state of Israel

The credit rating of the state of Israel has an effect on the capital requirements, since the capital requirements in respect of exposure to governments, public sector entities and financial institutions, are derived from the credit rating of the state of Israel. To the estimate of the Bank, if and as much as the credit rating of Israel will decrease by one notch, it will result in a decline of 0.24% and 0.32% in the Tier 1 capital ratio and the comprehensive capital ratio, respectively, as of December 31, 2022.

Implementation of the instructions

Within the framework of Pillar I, the Bank is implementing the standard approach in accordance with Bank of Israel instructions regarding credit, market and operational risks.
Within the framework of Pillar II - the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of June 30, 2022, has been dully submitted to Bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at the banking subsidiary, subject to required adjustments, and on the basis of its specific risk profile.

		December 31,	
		2022	**2021**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments (in NIS millions)**		
	Tier 1 capital, after deductions and supervisory adjustments	**10,802**	10,199
	Tier 2 capital after deductions	**3,448**	1,891
	Total capital	**14,250**	12,090
2.	**Weighted balances of risk assets (in NIS millions)**		
	Credit risk	**94,786**	81,660
	Market risk	**789**	683
	Operational risk	**8,061**	6,645
	Total weighted balances of risk assets	**103,636**	88,988
3.	**Ratio of capital to risk assets (in %)**		
	Raito of Tier 1 equity capital to risk assets	**10.42%**	11.46%
	Total ratio of comprehensive capital to risk assets	**13.75%**	13.59%
	Minimal ratio of equity capital Tier 1 required by the Supervisor of banks	**9.24%**	8.25%
	Minimal ratio of comprehensive capital required by the Supervisor of Banks	**12.50%**	11.50%

The Tier I equity capital ratio as of December 31, 2022, amounted to 10.42%, in comparison with 11.46% on December 31, 2021. The ratio of comprehensive capital to risk components as of December 31, 2022, amounted to 13.75%, in comparison with 13.59% on December 31, 2021.
The comprehensive capital as of December 31, 2022 amounted to NIS 14,250 million, in comparison with NIS 12,090 million on December 31, 2021.
The capital base was affected on the one hand, by profits of NIS 1,667 million, and by other comprehensive profit of NIS 152 million, in respect of employee benefits and from an increase in instruments issued by the Bank, which are qualified for inclusion in the supervisory capital in the amount of NIS 1,389 million. On the other hand, this increase was offset by a dividend distribution of NIS 945 million, and by other comprehensive loss of NIS 274 million, in respect of stating available-for-sale bonds at market value.
The risk assets as of December 31, 2022 amounted to NIS 103,636 million as compared with NIS 88,988 million on December 31, 2021, an increase of 16.5%, derived mainly from the increase in the credit to the public.

The comprehensive capital ratios and the Tier I equity capital ratios of the significant subsidiary, in accordance with the "framework for measurement and capital adequacy" of Basel, are:

	December 31,	
	2022	**2021**
		%
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**15.12%**	14.71%
Ratio of overall capital to risk assets	**16.25%**	15.72%

Leverage ratio - The Bank implements the Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio (hereinafter - "the Directive"). The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis, applying to a banking corporation, the total consolidated stated assets of which do not exceed 24% of total stated assets of the banking sector as a whole (including the Bank). On November 15, 2020 the Bank of Israel published an update to Proper Conduct of Banking Business Directive No. 250 - Adjustments to Proper Conduct of Banking Business Directives in order to cope with the Coronavirus crisis (Provisional Instruction), within its framework was updated Proper Conduct of Banking Business directive No. 218 in the matter of Leverage Ratio. The update mitigates the requirement of the leverage ratio by 0.5 percent point, so the Bank has to comply with leverage ratio of no less than 4.5% (instead of 5%) on a consolidated basis, being a banking corporation, the total consolidated stated assets of which does not exceed 24% of total stated assets of the banking sector as a whole, in accordance with the Provisional Instruction (as recently updated on May 15, 2022). The relief will be valid until June 30, 2024, provided that the leverage ratio will not be less than the leverage ratio at December 31, 2023, or the minimal leverage ratio applying to the Bank prior to the Provisional Instruction, whichever is lower.
The leverage ratio of the Bank as of December 31, 2022, amounts to 5.19%, compared to 5.34% as of December 31, 2021.

DIVIDEND DISTRIBUTION POLICY

According to the profit distribution policy adopted by the Board of Directors of the Bank (as was updated from time to time), the Bank will distribute annual dividends of up to 50% of its distributable net earnings in the current year, subject to the Bank's ratio of capital to risk elements being no less than the regulatory targets and the targets specified or which would be specified by the Bank's Board of Directors from time to time. Such distributions will be made subject to legislative provisions and to Proper Conduct of Banking Business Regulations, providing that no adverse changes occur in the Bank's earnings and/or business and/or financial position and/or the overall state of the economy and/or in the legal environment.
This resolution is not to be construed as detracting from the Board of Directors' authority to review policy from time to time and to resolve at any time, after taking due account of business considerations and of the legislative provisions applying to the Bank, changes in policy or the rate of dividend to be distributed for a specific period, or to resolve not to distribute any dividend at all.
It is clarified that any dividend distribution shall be subject to specific approval by the Board of Directors and to all the restrictions applying to the Bank regarding dividend distribution, and shall be made public in accordance with the provisions of the law, together with all required details.

It should be noted that in addition to the provisions of the Companies Law, dividend distribution by the Bank is subject to additional restrictions that are detailed in Note 24A.b. to the financial statements.

Following are details regarding dividends distributed by the Bank, as from the year 2020:

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS million	NIS
15 March 2020	31 March 2020	125	1.25
17 August 2021	1 September 2021	225	2.24
23 November 2021	13 December 2021	320	3.19
6 January 2022	24 January 2022	215	2.14
7 March 2022	24 March 2022	165	1.65
24 May 2022	12 June 2022	160	1.59
24 August 2022	1 September 2022	170	1.70
22 November 2022	8 December 2022	235	2.34

The Bank had applied and accepted, on March 2022, the position of Bank of Israel, according to which, nothing avoids considerations by the Bank for the distribution of a one-time dividend distribution, which includes an amount of NIS 150 million (completing the distribution of 50% of net earnings of 2020, in accordance with the dividend policy) and an additional one-time amount of dividend of up to NIS 350 million. However, considering the continuous growth of the Bank, the Board of Directors of the Bank resolved, on March 21, 2023, that the Bank does not consider a one-time dividend distribution, as mentioned above.

On March 21, 2023, the Board of Directors of the Bank resolved, in accordance with the dividend distribution policy of the Bank, to approve a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 268 million (gross), comprising approx. 50% of the net earnings of the Bank for the fourth quarter of 2022.

The ex-dividend date was fixed for March 28, 2023, and payment of the dividend shall be made on April 4, 2023. The amount of the dividend is before any tax, including tax which the Bank has to withhold according to the law.

SUPERVISORY SEGMENTS OF ACTIVITY

The reporting on segments of activity is in accordance with the format and classification set in the Directive of the Reporting to the Public of the Supervisor of Banks. This reporting is materially different from the segments of activity used by the Bank according to Management approach, which are detailed in Note 28A to the financial statements. The supervisory segments of activity are reported in a uniform format that was set by the Supervision of Banks to the entire banking system, and they are based on the customers characteristics, such as: the volume of assets portfolio for private customers, or the business turnover- for business customers.

For the definitions of the supervisory segments of activity and for details regarding main instructions, estimates and principals of reporting, see Note 28 to the financial statements.

For details regarding segments of activity according to management approach see Note 28A to the financial statements.

The following is a summary of the results of activity by segments:

a. Total income*

	For the year ended December 31,			Segment's share of total income December 31,	
	2022	2021	Change	2022	2021
		NIS million	%		%
Large business segment	**569**	400	42.3	**10.5**	8.8
Medium business segment	**312**	214	45.8	**5.8**	4.7
Small and minute business segment	**1,227**	967	26.9	**22.7**	21.2
Household segment	**2,330**	1,846	26.2	**43.0**	40.6
Private banking segment	**158**	108	46.3	**2.9**	2.4
Institutional entities	**318**	234	35.9	**5.9**	5.1
Financial management segment	**500**	781	(36.0)	**9.2**	17.2
Total	**5,414**	4,550	19.0	**100.0**	100.0

b. Net earnings attributed to the shareholders of the bank

	For the year ended December 31,	
	2022	2021
		NIS million
Large business segment	**230**	196
Medium business segment	**99**	85
Small and minute business segment	**339**	285
Household segment	**510**	274
Private banking segment	**52**	22
Institutional entities	**91**	40
Financial management segment	**346**	503
Total	**1,667**	1,405

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Credit to the public			Segment's share of credit to the public	
	For the year ended December 31,			For the year ended December 31,	
	2022	2021	Change	2022	2021
		NIS million	%	%	%
Large business segment	**23,381**	16,978	37.7	**21.2**	18.0
Medium business segment	**7,291**	5,623	29.7	**6.6**	6.0
Small and minute business segment	**21,502**	19,325	11.3	**19.4**	20.4
Household segment	**56,656**	51,325	10.4	**51.3**	54.3
Private banking segment	**111**	68	63.2	**0.1**	0.1
Institutional entities	**1,572**	1,139	38.0	**1.4**	1.2
Total	**110,513**	94,458	17.0	**100.0**	100.0

	Deposits from the public			Segment's share of deposits from the public	
	For the year ended December 31,			For the year ended December 31,	
	2022	2021	Change	2022	2021
		NIS million	ב-%		%
Large business segment	**17,339**	12,830	35.1	**10.9**	8.8
Medium business segment	**6,864**	5,813	18.1	**4.3**	4.0
Small and minute business segment	**26,987**	24,374	10.7	**16.9**	16.7
Household segment	**66,606**	63,497	4.9	**41.7**	43.5
Private banking segment	**9,781**	9,033	8.3	**6.1**	6.2
Institutional entities	**31,997**	30,401	5.2	**20.1**	20.8
Total	**159,574**	145,948	9.3	**100.0**	100.0

* Average balances are calculated on the basis of balances at the beginning of quarter or the beginning of month.

BUSINESS SEGMENTS - SMALL AND MINUTE BUSINESS SEGMENT, MEDIUM BUSINESS SEGMENT AND LARGE BUSINESS SEGMENT

Following are main data concerning Business segments - Small and minute, medium and large business - activity in Israel

	For the year ended December 31, 2022				For the year ended December 31, 2021			
	Small and minute business segment	Medium business segment	Large business segment	Total	Small and minute business segment	Medium business segment	Large business segment	Total
								NIS million
Net interest income	**845**	**237**	**413**	**1,495**	609	150	291	1,050
Non-interest income	**382**	**75**	**156**	**613**	358	64	109	531
Total income	**1,227**	**312**	**569**	**2,108**	967	214	400	1,581
Expenses (income) from credit losses	**24**	**42**	**13**	**79**	(115)	(21)	(73)	(209)
Operating and other expenses	**674**	**113**	**201**	**988**	640	100	174	914
Net profit attributed to the shareholders of the Bank	**339**	**99**	**230**	**668**	285	85	196	566
Average balance of credit to the public	**21,502**	**7,291**	**23,381**	**52,174**	19,325	5,623	16,978	41,926
Balance of credit to the public at the end of the reported period	**20,468**	**8,215**	**27,389**	**56,072**	21,044	6,101	18,571	45,716
Average balance of deposits from the public	**26,987**	**6,864**	**17,339**	**51,190**	24,374	5,813	12,830	43,017
Balance of deposits from the public at the end of the reported period	**27,325**	**6,834**	**17,753**	**51,912**	25,949	7,028	15,553	48,530

Main changes in the result of activity in the year 2022 compared with the year 2021

Total net interest income amounted to NIS 1,495 million, compared with NIS 1,050 million in 2021, an increase of 42.4%. This increase is explained by a raise in the volume of activity and the effect of the raise in the NIS and Dollar interest rates.

Non-interest income amounted to NIS 613 million, compared with NIS 531 million in 2021, an increase of 15.4%, derived mainly from an increase in income from the capital market and income from convergence differences.

Expenses in respect of credit losses amounted to NIS 79 million, compared with an income of NIS 209 million in 2021. In 2022, expenses from credit losses were recorded, stemming from the increase in the collective provision, due to an increase in the volume of sound credit and from an increase in the subjective provision, stemming from possible implications to the changes in the domestic and global economic environment. In 2021, income in respect of credit losses, was recorded, deriving from a decrease in the collective provision for credit losses, due to the improvement in the macro-economic indices as a result of the exit from the corona crisis and parameters indicating the risk level embedded in the credit portfolio of the Bank.

Operating and other expenses amounted to NIS 988 million, compared with NIS 914 million in 2021, an increase of 8.1%, derived mainly from an increase in the computer expenses and payroll expenses.

The net profit attributed to the shareholders of the Bank in respect of the business segments, amounted to NIS 668 million, in comparison with NIS 566 million in 2021, an increase of 18.0%, explained mainly by an increase in the interest income and non-interest income, as explained above. This increase was partially offset by an increase in the collective expense in respect of credit losses and from an increase in operating and other expenses.

Average balance of credit to the public amounted to NIS 52,174 million, in comparison with NIS 41,926 million in 2021, an increase of 24.4%.

Credit to the public as of December 31, 2022 amounted to NIS 56,072 million, in comparison with NIS 45,716 million on December 31, 2021, an increase of 22.7%.

Average balance of deposits from the public amounted to NIS 51,190 million, in comparison with NIS 43,017 million in 2021, an increase of 19.0%.

Deposits from the public as of December 31, 2022 amounted to NIS 51,912 million, in comparison with NIS 48,530 million on December 31, 2021, an increase of 7.0%.

PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLD AND PRIVATE BANKING

Following are main data concerning Private individuals segments - household and private banking - activity in Israel

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	household segment	private banking segment	Total	household segment	private banking segment	Total
						NIS million
Net interest income	**1,720**	**70**	**1,790**	1,211	16	1,227
Non-interest income	**610**	**88**	**698**	635	92	727
Total income	**2,330**	**158**	**2,488**	1,846	108	1,954
Expenses (income) from credit losses	**41**	**1**	**42**	(5)	1	(4)
Operating and other expenses	**1,440**	**76**	**1,516**	1,384	72	1,456
Net profit attributed to the shareholders of the Bank	**510**	**52**	**562**	274	22	296
Average balance of credit to the public	**56,656**	**111**	**56,767**	51,325	68	51,393
Balance of credit to the public at the end of the reported period	**59,045**	**97**	**59,142**	54,882	95	54,977
Average balance of deposits from the public	**66,606**	**9,781**	**76,387**	63,497	9,033	72,530
Balance of deposits from the public at the end of the reported period	**68,122**	**10,430**	**78,552**	63,792	9,253	73,045

Main changes in the result of activity in the year 2022 compared with the year 2021

Total net interest income amounted to NIS 1,790 million, as compared with NIS 1,227 million in 2021, an increase of 45.9%. This increase is explained by a raise in the volume of activity and the effect of the raise in the NIS and Dollar interest rates.

Non-interest income amounted to NIS 698 million, compared with NIS 727 million in 2021, a decrease of 4.0%, derived mainly from a decrease in the income from the capital market activity.

Expense in respect of credit losses amounted to NIS 42 million, compared with an income of NIS 4 million in 2021. In 2022, expenses from credit losses were recorded, stemming from the increase in the collective provision, due to an increase in the volume of sound credit and from an increase in the subjective provision, stemming from possible implications to the changes in the domestic and global economic environment. In 2021, income in respect of credit losses, was recorded, deriving from a decrease in the collective provision for credit losses, due to the improvement in the macro-economic indices and parameters indicating the risk level embedded in the credit portfolio of the Bank.

Operating and other expenses amounted to NIS 1,516 million, as compared to NIS 1,456 million in 2021, an increase of 4.1%, deriving, among other things, from an increase in computer expenses and payroll expenses.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment amounted to NIS 562 million, compared with NIS 296 million in 2021, an increase explained mainly by an increase in the interest income and non-interest income, as mentioned above.

Average balance of credit to the public amounted to NIS 56,767 million, in comparison with NIS 51,393 million in 2021, an increase of 10.5%.

Credit to the public as of December 31, 2022 amounted to NIS 59,142 million, in comparison with NIS 54,977 million on December 31, 2021, an increase of 7.6%.

Average balance of deposits from the public amounted to NIS 76,387 million, in comparison with NIS 72,530 million in 2021, an increase of 5.3%.

Deposits from the public as of December 31, 2022 amounted to NIS 78,552 million, in comparison with NIS 73,045 million on December 31, 2021, an increase of 7.5%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 346 million compared with NIS 503 million in 2021. The decrease in net profit stemmed mainly from a decrease in gains from investments in shares in amount of NIS 297 million (mainly unrealized profit/ losses).

Total net interest income and non-interest income in respect of trading activity and assets and liabilities management activity amounted to NIS 554 million compared with NIS 543 million in 2021.

Total income from trading activity attributed to this segment, amounted to NIS 92 million. Total net interest income (Note 2 to the financial statements) and non-interest financing income (Note 3 to the financial statements) in respect of trading activities, amounted to NIS 101 million.

The difference in the amount of NIS 9 million, derives from income from activity in derivatives for trading, which is not attributed to this segment.

PRINCIPAL INVESTEE COMPANIES

Bank Massad Ltd. (hereinafter - "Massad") - in which the Bank owns 51.0% of the share capital and voting rights, is a commercial bank which specializes in providing services to the teachers' population in Israel.

The Bank's investment in Massad amounted to NIS 496 million on December 31, 2022.

Total assets of Massad on December 31, 2022 amounted to NIS 11,268 million compared with NIS 10,835 million on December 31, 2021, an increase of 4.0%.

Shareholders' equity of Massad on December 31, 2022, totaled NIS 972 million compared with NIS 886 million on December 31, 2021, an increase of 9.7%.

Net earnings of Massad totaled NIS 120.8 million in 2022, compared with NIS 101.7 million in 2021, an increase of 18.8%.

The Bank's share in Massad's operating results for 2022 amounted to NIS 61.6 million compared with NIS 51.9 million in 2021.

During 2021, Massad distributed dividends in the amount of NIS 20 million. The Bank's share in the dividend amounted to NIS 10 million.

Net return on equity (annualized) amounted to 13.0% in 2022, compared with 11.9% in 2021. The ratio of comprehensive capital to risk assets amounted to 16.25%, compared with 15.72% at the end of 2021. The Tier 1 equity capital ratio amounted to 15.12% compared with 14.71% at the end of 2021.

In the framework of the ICAAP process for the data of June 30, 2022 the minimal capital targets were set as follows: tier 1 equity capital ratio will be no less than 10.5% until December 31, 2022 and the comprehensive capital ratio will be no less than 12.65%.

Israel Credit Cards Ltd. ("ICC") - The Bank holds 28.2% of equity and 21.0% of voting rights in ICC.

ICC markets and issues credit cards and settles credit card transactions of the international Visa and MasterCard brand, markets and operates Diners credit cards on an exclusive basis in Israel, and also settles credit cards of IsraCard brand.

The Bank's investment in ICC amounted to NIS 687 million on December 31, 2022.

The ratio of comprehensive capital to risk assets amounted to 13.4%, compare with 16.3% at the end of 2021.

The Bank's share in the net earnings of ICC before the tax effect amounted in 2022 to NIS 83.7 million compared with NIS 78.6 in 2021, an increase of 6.5%.

On May 15, 2022, the General Meeting of Shareholders of ICC approved a dividend distribution in an amount of NIS 340 million. The Bank's share in the dividend amounted to NIS 96 million. The dividend was paid on May 17, 2022.

On September 22, 2022, the General Meeting of Shareholders of ICC approved an additional dividend distribution in an amount of NIS 80 million. The Bank's share in the dividend amounted to NIS 22 million. The dividend was paid on September 29, 2022.

In accordance with ICC reports, on March 23, 2022, within the framework of the preparations for the relocation to the Discount Campus, ICC signed an agreement for the sale of the ICC Building in Givatayim. Consummation of the sale transaction is expected in the second quarter of 2023, and according to ICC's assessment, it is expected to record a net gain on the sale in the amount of NIS 220 million. The Bank's share in the said net gain amounts to NIS 60 million.

On August 11, 2021, Bank of Israel informed ICC that it examines the possibility of cross-clearing with respect to the "Diners" brand and its ramifications, requesting ICC to provide any information, which in its opinion, might assist in forming a position in the matter. On December 21, 2021, the Ministry of Finance updated ICC that examination of the possibility of imposing cross-clearing also with respect to the "Diners" and "American Express" brands, had begun.

In continuation of the above, on August 1, 2022, the Ministry of Finance informed ICC of an outline, within the framework of which, the issuers of the closed brands ("Diners" and "American Express") would allow any clearing license holder to engage in a consolidating agreement with them and summarize debits and credits of trading houses in respect of transactions effected by use of charge cards of the closed brands. According to the position of the Ministry, to the extent that the said outline would take effect within 120 days, there will be no need to involve the authority of the Minister of Finance under the law, to determine that an issuer having a wide scope of operations (including ICC) shall not refuse to engage with a clearing agent for the purpose of cross-clearing of transactions made by charge cards issued by him, based on unreasonable arguments, also with respect to the closed brands. The Ministry of Finance intends to examine the situation in the market and the progress made by the parties in regularizing the said outline, and accordingly, reach a conclusion regarding the necessity to involve the authority of the Minister. In accordance with the outline, ICC would be able to serve as a consolidating agent for the "American Express" brand.

It is noted that at the reporting date, the subsidiary of ICC, Diners Club Israel Ltd., is engaged in agreements with several consolidators, providing them the ability to offer clearing services to trading houses with respect to the "Diners" brand, under terms agreed with each consolidator.

ICC has signed an agreement with Tranzilla Ltd. and an agreement in principle with IsraCard in respect of the operation of these companies as "consolidators" regarding the Diners brand, and also signed an agreement with Premium Express Ltd. for the regularizing of the operation of the company as "consolidator" regarding the "American Express" brand. ICC also held negotiations with representatives of the Ministry of Finance with regard to the said engagements.

ICC estimates that implementation of the outline may on the one hand, increase competition in the clearing sector in general, and in the closed brands "Diners" and "American Express" in particular, and respectively, may lead to a reduction in income of the clearing sector of ICC. On the other hand, the outline may lead to expansion of the market coverage of the closed brands in the clearing field, introducing them to additional trading houses.

In accordance with the reports of ICC and with the Increase in Competition and Reduction in Centralization in the Banking Market in Israel (Legislation amendments) Act, 2017, the Banking Regulations (Licensing) (A bank having a wide scope of operations), 2023 (hereinafter – "the Regulations") were published on January 30, 2023.

According to the Regulations, Discount Bank Ltd. is obliged to sell the means of control it holds in ICC within a period of three years from date of publication of the Regulations or, under certain circumstances, by the end of four years, if it is decided on an outline of a public issue of shares. Furthermore, the provisions of the Increase in Competition and Reduction in Centralization in the Banking Market in Israel (Legislation amendments) Act, 2017, will apply to the sale.

Within the framework of the joint distribution agreement with El-Al Company, the latter was granted, *inter alia*, an option of the "Phantom" type, entitling El-Al to economic rights in ICC (equal in value to 8.75% of the increase in value of ICC exceeding the amount of NIS 1,800 million) or in Diners (equal in value to 35% of the increase in value of Diners exceeding the amount of NIS 335 million). The option is exercisable only in case of a sale or public issue of shares by any of these companies, in accordance with the terms of the agreement signed in this respect, and would be settled in cash.

In accordance with a valuation in the hands of ICC, the fair value of the "Phantom" option (within the meaning of the term in accepted accounting principles), based on data regarding transactions for the acquisition of the credit card companies IsraCard and MAX (being public data only, regarding the agreement by which Harel Investments is expected to acquire all the share capital of IsraCard and the agreement by which Clal Insurance Business Holdings is expected to acquire all the share capital of MAX, as per their reports to the public) and on the assumption that ICC would in the future use to the utmost the possibility of a dividend distribution in accordance with the option agreement, is approximately NIS 55 million. ICC is expected to recognize in the first quarter of 2023, a liability in respect of the said option. Considering the tax effect, recognition of such liability is expected to reduce the net earnings of ICC for the first quarter of 2023 by an amount of NIS 40 million.

It is emphasized that, according to information provided to ICC, at this stage, Discount Bank is in the midst of primary preparations for the separation from ICC, and that no decisions had even been taken as to the outline for the separation. The transaction in question is of a volume expected to be material, where the acquisition price to be determined might be affected by the dynamics of the market at a date proximate to the transaction date, by the course of development of ICC in comparison to is competitors, by the outline by which the separation would be executed, by possible competition among potential buyers and by different macro-economic variables. The final value of the option will be determined upon its exercise and it might be materially different from the said valuation

See Note 25 to the financial statements, with respect to motions for approval of class actions against ICC, and regarding the assessments that had been issued to ICC by the Value Added Tax Commissioner.

REVIEW OF RISKS

Additional information about the risks can be found in the report on risks and additional supervisory reporting in the Bank's internet website.

GENERAL

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk, liquidity risk, operational risk including cyber and information protection risk and information technology risk, compliance risk and AML risk, strategy risk, legal, reputation risk, legislation and regulation risks and model risk. Members of the Board of Management are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel directives exists. Within the ICAAP process, the Group performs an in-depth process of identifying additional risks focal and challenging the risks focal identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and other risks.

b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.

c. Risk management is carried on Group level, the overall risk perceptive of the Group is in line with the regulatory framework set by the Supervisor of Banks and in line with the Sound Practices of the Basel Committee, based on the principal that every banking activity involving risk, the following will be defined and characterized: risk policy and appetite, limitations for bordering and defining the volume of exposure, control and auditing circles, reporting arrangement and earnings estimation mechanism, its measurement and reporting according to acceptable standard.

d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk. The second line is maintained by units of the Risk Management Division and Chief Accountant and legal department by means of independent control. The third line consists of the internal and external auditing functions.

e. The Chief Risk Manager is a member of Management responsible for the risk management function and for the cross organizational risk management infrastructure.

f. Those responsible for risk management at the Group are:

Mr. Eli Cohen, CPA - serves as the Head of risk management division, CRO, operational risk manager, supervisor of the internal enforcement and manager of business continuity.

Mr. Bentzi Adiri CPA, Head of the Business Division-serves as Credit Risk Manager;

The financial risks are managed by Mrs. Ella Golan, head of resources and financial management division. In addition, under her responsibility are also regulation and legislation risks.

The Strategic risk, as from May 10, 2022 is managed by Mrs. Shirli Shoham Klein, which was appointed as the Head of the Digital, innovation, strategy and business developing department. Until that date, the Strategy risk was managed by Mrs. Ella Golan, Head of the resources and financial management division.

Mrs. Ziva Barak- as from April 24, 2022, compliance manager, including, among other things, Money Laundering risk, Finance of Terror risks and internal enforcement and cross border risks. Also appointed as Responsible Officer in-charge of implementation of the FATCA and CRS directives and QI agreement. Also responsible for privacy defense. Mrs. Barak replaced Mr. Amir Birenboim, which was officiated in these positions until that date.

Mr. Ophir Kadosh - the CEO of MATAF -IT risk manager.

Mrs. Iris Chen, manager of cyber defense and information security - as from May 31, 2022, - Cyber Risks manager. Until that date were managed by Mr. Yehoshua Peleg, which served as manager of cyber defense and information security.

Adv. Haviva Dahan, head of the legal sub-division - Legal Risk Manager;

Mr. Nachman Nitzan, CPA- head of the chief accounting division- Reputation Risk manager;

g. Additional risks are managed and supervised as part of overall business management, by members of the Board of Management and by department heads in the areas for which they are responsible.

h. Risk management at the Bank Group is carried out separately by each subsidiary company engaged in business activity, in accordance with the policy determined by the subsidiary's board of directors on the basis of Group policy, and on the basis of Group risk management methodology with an emphasis on the special nature of the subsidiary's activity. A Chief Risk Manager officiates at the banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.

i. Every quarter, the Risk Management Division, which is independent of the risk-taking units, compiles a risks document which is presented to the Management of the Bank, the Risk Management Committee and the Board of Directors of the Bank.

j. The risks document contains a review of all the risks to which the Bank Group is exposed in the course of its activity, with details of the findings at the specific risk level, compliance with supreme goals, risk mapping as well as the results of stress tests that were conducted.

   Presented in the risk document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are compliance with the risk appetite regarding the different risks, evaluation of risk, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the Bank took during the relevant quarter.

k. The Bank and the Group have diverse stress tests for the unique risks, as embedded in the various policy documents. The Bank applies stress tests for reviewing capital adequacy and the capital ratio according to the triennial capital planning. The stress tests combine the realization of a number of risk centers at the same time. The stress tests used by the Bank are based on sensitivity analysis, historical scenarios, hypothetical scenarios and macro-economic scenarios. The stress tests were updated during 2022, reflecting also the possible effects of the increase in inflation and reduced monetary policy, the effect of which are expressed in negative rate of growth and increasing rate of unemployment, while identifying and mapping the relevant risk centers.

   The stress tests comprise a complementary tool for the mapping and managing the risks embedded in the overall activities of the Bank and the risks derived from them. The scenarios and their results are tool for identifying weakness points and taking decisions. The Bank has management plans for coping with the stress scenarios, by taking different measures. In addition, according to the Bank of Israel requirement, the Bank calculates stress test on the basis of parameters which are uniform to the banking system. The uniform stress tests are tool for the Bank of Israel, in order to receive an updated holistic image of the Israeli economy and the ability of the banking system to continue and grant credit to the public while maintaining its stability. At the beginning of 2022, a uniform scenario based on the data for June 2021, was submitted at the request of Bank of Israel. The scenario was structured in accordance with two level of severity - basic (representing the anticipated path of the economy) and stressed. The capital ratios in all scenarios exceed the relevant limitations. At the end of 2022, a request from the Bank of Israel was received, to perform a uniform scenario based on the data for September 2022, to be submitted during March 2023.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented below.

CREDIT RISK

GENERAL

Credit risk is the risk of borrowers' inability or counterparty's inability to fulfill their obligations to the Bank in accordance with the credit agreement.

Within the framework of the implementation of the Basel Rules, the Group applies the standard approach in respect of exposure to credit risk. Pillar II of Basel challenges the capital allocation in accordance with Pillar I, and where required, a complementary capital allocation in respect of credit risks is being made.

During the months April 2022- February 2023, Bank of Israel raised the interest in the economy, eight consecutive times and it stands at a rate of 4.25%. In the last interest announcement, it was noted, that the pace of interest raises will be determined in accordance to the activity data and the development of inflation, in order to continue to support the achievement of the policy's targets.

The interest rise is expected to increase the financing expenses of household and business companies, which alongside the rise in the inflation, make the current expenses more expansive, which may aggravate the financial situation of borrowers, part of which, are customers of the Bank.

The Bank examines the effect of the rise in the interest rate and inflation on the different activity segments and in particular, the effect on the debts repayment ability of customers of the Bank. As of the date of publication of the financial statements, no material effect on the Bank was recorded. The Bank continues to follow these effects.

RISK POLICY AND RISK APPETITE

Credit policy

The risk management division leads the process of the formulation of the credit risk policy, with the participation of the employees in charge of the credit extension in the Bank. The credit policy document is discussed and approved at least once a year by the Management, the Loan and the Risk Management Committees and by the Board of Directors of the Bank and is revised according to changes in the financial markets in Israel and globally, changes in regulation and in requirements of the business, as detailed below. The Bank's procedures in the area of credit and credit risk management support and express this policy in practice.

The Board of Directors of the Bank has outlined a strategy for reducing undesirable exposure to credit risk by defining risk appetite. In this respect were defined areas of activity which are not in the marketing focus of the Bank, as well as areas where credit is not granted, to the extent that the risk level imbedded in them is high or if the level of management and control over them is not high enough, even though the potential income from them is expected to be high.

Risk appetite

The Bank's credit risk appetite reflects measured willingness of taking credit risks, corresponding with cautious banking activity, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. Accordingly, the Bank's policy includes an extensive and detailed discussion of objectives and the manner of business credit development in different sectors and areas of activity, while defining detailed principles for each sector and area, including individual restrictions at the sub-sector level and the activities areas that are notable for a high level of risk.

CREDIT RISK MEASUREMENT, ESTIMATION AND MANAGEMENT SYSTEMS

The Bank employs internal models for rating the credit risk inherent in the customer's activity. The models are based mostly on objective criteria relating to the borrower's position (the customer's characteristics, the composition of his collateral, the financial resilience apparent in the customer's financial reports, sector-specific data and other financial data).

COLLATERALS MANAGEMENT POLICY

The Bank has a clearly defined policy regarding the acceptance of assets as collateral for credit, the manner in which collateral is pledged and the rates of reliance on each type of collateral.
Collateral reliance policy is conservative and based on the updated fair value of the collaterals, their liquidity and the speed at which they can be realized if necessary.

PROBLEMATIC DEBT POLICY AND THE PROVISION FOR CREDIT LOSSES

- The Bank maintains structured working procedures facilitating the early detection of problematic borrowers. The Bank determined procedures for identification of problematic debts and classification of debts as problematic. In addition, the Bank determined a policy for the measurement of the provision for credit losses in order to maintain provision at an appropriate level to cover anticipated credit losses.
- Operating within the Bank are specialist units that process problematic loans.

SUPERVISION AND CONTROL OF THE MANAGEMENT OF CREDIT RISK EXPOSURE

The Bank maintains suitable mechanisms for the control, management, supervision and audit of the credit risk management process. The Bank's managerial and control concept is to identify, quantify and estimate the exposure to credit risks on a current basis, and to control the adherence to the prescribed restrictions.
Credit risk exposure management is examined and reviewed constantly, within the review of all risks, by specialist committees and forums at the level of the Board of Directors, Management and the middle-management grades, as detailed in the risk report in the internet.
The Bank has a system for documenting the legal documents creating the liens on the assets pledged as collateral in the customers files and a system that controls the value of the assets, enabling current daily supervision.

REPORTING ON EXPOSURE TO CREDIT RISKS

Management and the Board of Directors of the Bank receive from management, supervision and control functions a range of reports on exposure to credit risks in various cross-sections among which is the quarterly Risk Document. This document contains, inter alia, review of the credit portfolio development, credit risk evaluation reports by economic sectors in various cross-sections, adherence to regulatory limitations and to limitations prescribed by the Board of Directors and Management, and a review of the balance of problematic debts and the provision for credit losses, as required in Proper Conduct of Banking Business Directives 310 and 311.

CREDIT QUALITY AND PROBLEMATIC CREDIT RISK

At December 31, 2022, problematic credit risk with all its different components, including off-balance-sheet components, totaled NIS 1,497 million compared with NIS 1,936 million at the end of 2021, a decrease of 22.7%.
The ratio of problematic credit risk to total credit risk at the Group amounted to 0.9% at the end of 2022, compared with 1.3% at the end of 2021.
22.6% of problematic credit risk at the Group are attributed to the industrial sector, 13.3% to the real estate sector, 16.1% to the commercial sector and 31.7% to the private customers sector including housing loans.
The ratio of the stated problematic credit risk to total credit to the public amounted to 1.2%, compared to 1.7% at the end of 2021.
In respect of initial implementation of accepted accounting principles in US banks in the matter of credit losses stemming from financial instruments as detailed in item 326 to the Codification (ASC- 326), see note 1.C. to the financial statements.

For additional information regarding credit quality see note 29.b.(1) to the financial statements.

Analysis of credit quality, problematic credit risk and non-performing assets of the public

	December 31, 2022				December 31, 2021			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
								NIS million
Credit risk in credit granting rating(1)								
Stated credit risk	**56,823**	**34,967**	**22,651**	**114,441**	46,468	31,647	21,607	99,722
Off-balance sheet credit risk	**24,979**	**2,233**	**13,397**	**40,609**	22,813	3,575	12,778	39,166
Total credit risk in credit granting rating	**81,802**	**37,200**	**36,048**	**155,050**	69,281	35,222	34,385	138,888
Credit risk not in credit granting rating:								
Non-problematic	**1,342**	**288**	**640**	**2,270**	1,444	338	759	2,541
Problematic(2)	**884**	**220**	**246**	**1,350**	1,174	275	269	1,718
Of which:								
-Problematic accruing interest	**581**	**75**	**150**	**806**	836	275	166	1,277
-Non-accruing interest	**303**	(3)**145**	**96**	**544**	338	-	103	441
Total stated credit risk	**2,226**	**508**	**886**	**3,620**	2,618	613	1,028	4,259
Off-balance sheet credit risk	**722**	**1**	**78**	**801**	540	3	182	725
Total credit risk not in credit granting rating	**2,948**	**509**	**964**	**4,421**	3,158	616	1,210	4,984
Of which: performing debts in arrears of 90 days or more	**8**	**-**	**13**	**21**	10	167	22	199
Total overall credit risk of the public	**84,750**	**37,709**	**37,012**	**159,471**	72,439	35,838	35,595	143,872
Non-performing assets								
Non-accruing debts - not accruing interest income.	**303**	(3)**145**	**96**	**544**	338	-	103	441

(1) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
(2) Non-accruing, inferior or special supervision credit risk.
(3) According to the directives of Bank of Israel, as from January 1, 2022, housing loans in arrears of 90 days or more are classified as non-accruing debts.

Changes in non-accruing debts in respect of credit to the public

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	Commercial	Private	Total	Commercial	Private	Total
		NIS million			NIS million	
Balance of non-accruing debts at beginning of year	**338**	**103**	**441**	376	107	483
Adjustment to opening balance due to effect of initial implementation(1)	**6**	**146**	**152**			
Balance of non-accruing debts at beginning of year following initial implementation	**344**	**249**	**593**			
Classified as non-accruing during the year	**186**	**117**	**303**	166	203	369
Removed from non-accruing classification	**(12)**	**(55)**	**(67)**	-	(138)	(138)
Accounting write-offs of non-accruing debts	**(77)**	**(25)**	**(102)**	(62)	(19)	(81)
Collection of non-accruing debts	**(138)**	**(45)**	**(183)**	(142)	(50)	(192)
Balance of non-accruing debts at end of year	**303**	**241**	**544**	338	103	441
Of which: movement in problematic restructured debts						
Balance of restructured debts at beginning of the year	**67**	**69**	**136**	95	80	175
Adjustment to opening balance due to effect of initial implementation(1)	**-**	**19**	**19**			
Balance of restructured problematic debts at beginning of year following initial implementation	**67**	**88**	**155**			
Restructure made during the year	**49**	**53**	**102**	43	52	95
Debts reversed into accruing classification following consequent restructure	**(9)**	**(12)**	**(21)**	-	(7)	(7)
Accounting write-offs of restructured debts	**(12)**	**(15)**	**(27)**	(13)	(16)	(29)
Collection of restructured debts	**(29)**	**(38)**	**(67)**	(58)	(40)	(98)
Balance of problematic restructured debts at end of year	**66**	**76**	**142**	67	69	136
Changes in provision for credit losses in respect of non-accruing debts						
Balance of provision for credit losses at the beginning of the year	**129**	**33**	**162**	144	37	181
Adjustment to opening balance due to effect of initial implementation(1)	**(8)**	**-**	**(8)**			
Balance of provision following initial implementation	**121**	**33**	**154**			
Increase in provisions	**60**	**21**	**81**	62	20	82
Collection and write-offs	**(102)**	**(20)**	**(122)**	(77)	(24)	(101)
Balance of provision for credit losses at the end of the year	**79**	**34**	**113**	129	33	162

(1) The effect of the initial implementation of the Reporting to the Public directives in respect of anticipated credit losses. For detail see note 1.C. to the financial statements.

Indices of Analysis of quality of credit to the public, the expenses and provision for credit losses

	For the year ended December 31				
				2022	2021
	Commercial	Housing	Private	Total	Total
Analysis of quality of credit to the public					
Ratio of non-accruing credit to credit to the public	**0.52%**	**0.41%**	**0.41%**	**0.46%**	0.43%
Ratio of non-accruing credit or in arrears of 90 days or more to credit to the public	**0.53%**	**0.41%**	**0.46%**	**0.48%**	0.63%
Ratio of problematic credit to credit to the public	**1.51%**	**0.62%**	**1.05%**	**1.15%**	1.68%
Ratio of credit not at credit execution rating to credit to the public	**3.83%**	**1.43%**	**3.76%**	**3.09%**	4.17%
Analysis of expenses (income) in respect of credit losses for the reporting period					
Ratio of expenses (income) in respect of credit losses to the average balance of credit to the public	**0.15%**	**0.07%**	**0.08%**	**0.11%**	(0.23%)
Ratio of net accounting write-offs as to the average balance of credit to the public	**0.05%**	**-**	**0.01%**	**0.03%**	(0.01%)
Analysis of provision for credit losses in respect of credit to the public					
Ratio of provision for credit losses to credit to the public	**1.23%**	**0.41%**	**1.42%**	**1.02%**	1.05%
Ratio of provision for credit losses to the balance of non-accruing credit to the public	**236.6%**	**100.0%**	**346.9%**	**219.7%**	244.0%
Ratio of provision for credit losses to the balance of credit to the public, non-accruing or in arrears of 90 days or more	**230.5%**	**100.0%**	**305.5%**	**211.5%**	168.1%
Ratio of provision for credit losses to net accounting write-offs	**26.6**	**(145.0)**	**111.0**	**41.2**	(134.5)

TOTAL CREDIT RISK ACCORDING TO ECONOMIC SECTORS

(NIS million)

	as at December 31, 2022						
					Credit losses [2]		
	Total credit risk[1]	Of which: having credit granting rating [3]	Of which: problematic credit risk [4]	Of which: Non-accruing credit risk	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	11,267	10,762	339	82	28	32	171
Construction and Real estate - construction [5]	17,020	16,462	137	77	49	(2)	174
Construction and Real estate - real estate activities	7,841	7,597	62	42	7	-	63
Commerce	9,842	9,413	241	87	22	(5)	183
Financial services	22,442	22,303	8	2	13	(9)	34
Other business services	15,776	14,716	235	70	(37)	7	188
Total commercial [6]	84,188	81,253	1,022	360	82	23	813
Private individuals - housing loans	37,709	37,200	220	145	25	(1)	151
Private individuals - others	37,012	36,048	255	98	17	3	344
Total public - activity in Israel	158,909	154,501	1,497	603	124	25	1,308
Banks in Israel and Israeli government	12,782	12,782	-	-	-	-	2
Total activity in Israel	171,691	167,283	1,497	603	124	25	1,310
In respect of borrowers abroad							
Total public - activity abroad	562	549	-	-	(1)	4	4
Banks abroad and foreign governments	6,640	6,640	-	-	-	-	-
Total activity abroad	7,202	7,189	-	-	(1)	4	4
Total	178,893	174,472	1,497	603	123	29	1,314

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet financial instruments as was calculated for debt limitation of a borrower, in the amount of NIS 120,834 million, NIS 15,565 million, NIS 12 million, NIS 747 million and NIS 41,735 million, respectively.

(2) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(3) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(4) Balance sheet and off-balance sheet credit risk that is non-accruing, inferior, or under special supervision.

(5) Including balance sheet credit risk amounting to NIS 135 million and off-balance sheet credit risk amounting to NIS 10 million in respect of housing loans extended to certain purchasing groups currently in the process of construction.

TOTAL CREDIT RISK ACCORDING TO ECONOMIC SECTORS (CONT'D)

(NIS million)

	as at December 31, 2021						
					Credit losses [2]		
	Total credit risk[1]	Of which: Having Credit granting rating [3]	Of which: problematic credit risk [4]	Of which: non-accruing credit risk*	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	10,585	10,031	366	125	(28)	14	191
Construction and Real estate - construction [5]	13,840	13,381	143	55	(1)	(2)	92
Construction and Real estate - real estate activities	6,549	6,144	113	97	(16)	1	25
Commerce	7,520	6,933	252	49	(58)	(8)	166
Financial services	18,602	18,486	10	5	(15)	(8)	22
Other business services	14,233	13,215	495	114	(88)	3	171
Total commercial [6]	71,329	68,190	1,379	445	(206)	-	667
Private individuals - housing loans	35,838	35,222	275	-	(6)	(1)	159
Private individuals - others	35,595	34,385	280	105	2	(6)	326
Total public - activity in Israel	142,762	137,797	1,934	550	(210)	(7)	1,152
Banks in Israel and Israeli government	14,875	14,875	-	-	-	-	-
Total activity in Israel	157,637	152,672	1,934	550	(210)	(7)	1,152
In respect of borrowers abroad							
Total public - activity abroad	1,110	1,091	2	-	(6)	(1)	3
Banks abroad and foreign governments	4,070	4,070	-	-	-	-	-
Total activity abroad	5,180	5,161	2	-	(6)	(1)	3
Total	162,817	157,833	1,936	550	(216)	(8)	1,155

* Restated according to the new representation format in respect of non-accruing debts instead of impaired debts.

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet instruments as were calculated in respect of limitations of a borrower of NIS 105,661, 14,359, 845, 1,709 and 40,243 million, respectively.

(2) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(3) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(4) Balance sheet and off-balance sheet credit risk that is not-accruing, inferior and under special supervision.

(5) Including balance sheet credit risk amounting to NIS 84 million and off-balance sheet credit risk amounting to NIS 80 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

COUNTER-PARTY CREDIT RISK MANAGEMENT

a. General

Counter-party credit risk is the risk that the counter-party to a transaction will become insolvent before the final settlement date for the payments in respect of the transaction. An economic loss will be caused if transactions with the counter-party have a positive economic value at the time when the counter-party becomes insolvent. Counter-party credit risk in the Bank is expressed in activity in derivatives against financial institutions.

In contrast to credit exposure, in which the exposure is unilateral and the Bank alone bears the risk of a loss, counter-party risk creates a bilateral risk of a loss, dependent on the existence of a positive or negative transaction value for each of the parties to the transaction. Exposure to counter-party risk is also apparent in the transactions' market value. The market value of the transactions may change over the lifetime of the transaction, due to changes in the relevant parameters in the market.

b. Policy and risk appetite

The Bank has risk policy and risk appetite at the Group level for activity with financial institutions, both at the overall risk appetite level and at the level of exposure to the single counter-party in a particular type of exposure and single transaction, taking due account of the Bank's equity capital and proportion of positions in it and based on parameters derived from the financial resilience of the counter-party.

The Group manages positions in respect of counter-parties by means of netting agreements which significantly reduce the risks to the Group's capital in situations of counter-party repayment default.

As part of its current counter-party risk management, the Bank monitors daily the adherence to the credit line restrictions allocated for activity with banks and financial institutions.

c. Present credit exposure to counter-parties that are foreign financial institutions

Most of the Bank Group's credit exposure to foreign financial institutions is to banks, mainly the banking systems in Western Europe and North America.

Present credit exposure to foreign financial institutions (1)

External credit rating (5)	as at December 31, 2022			as at December 31, 2021*		
	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk
			NIS million			NIS million
AAA to AA-	**321**	**2**	**323**	85	2	87
A+ to A-	**2,483**	**35**	**2,518**	2,717	33	2,750
BBB+ to BBB-	**128**	**2**	**130**	119	2	121
BB- to B-	**-**	**1**	**1**	-	-	-
Unrated	**13**	**-**	**13**	194	-	194
Total credit exposure to foreign financial institutions	**2,945**	**40**	**2,985**	3,115	37	3,152
Of which: Balance of problematic loans (4)	**-**	**-**	**-**	-	-	-

* Reclassified

NOTES:

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional investors and entities under their control.

(2) Deposits at banks, credit to the public, investments in bonds, securities that have been lent and other assets in respect of derivative instruments.

(3) Mainly guarantees and liabilities for the granting of credit, including guarantees for securing third-party indebtedness.

(4) Credit risk that is non-accruing, inferior or under special supervision.

(5) For the purpose of rating the financial institutions, the Bank used the ratings that were determined for the purpose of applying the Basel standardized approach. The Bank uses the rating of S&P for rating the foreign financial institutions to which credit exposure exists. When no S&P rating is available, the Bank uses the ratings of other rating agencies.

GENERAL NOTES:

a. Credit positions and problematic loans balances are presented after deduction of the provision for credit losses.

b. The credit positions do not include exposures to financial institutions that have an explicit and full government guarantee.

c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 27.B to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 244 million on December 31, 2022 (December 31, 2021 - NIS 299 million).

Most of the exposure is to foreign financial institutions with high financial resilience, most of which are included in investment grade A- and above. During 2022, the credit exposure of the Bank to foreign financial institutions remained basically unchanged, and these financial institutions did not lose their external grading.

The conservative risk appetite defined by the Board of Directors of the Bank is reflected by the distribution of the exposure of credit to financial institutions that are almost entirely graded at high ratings.

Most of the Group's present credit exposure (95%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 11% of the total exposure is rated in the range between AAA to AA-.

The Group's balance-sheet credit exposure to foreign financial institutions includes an NIS 360 million investment in foreign currency bonds.
The bond portfolio included in exposure to foreign financial institutions is spread out and totally consists of investment grade bonds, of which 67% are rated A- or higher.
The average duration of the portfolio is 1.9 years.
In addition, balance-sheet credit risk includes NIS 2.5 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of December 31, 2022, there is no country for which the Group has credit exposure to foreign financial institution exceeding 15% of the Bank's equity capital, which amounted to NIS 2,138 million (as defined in Proper Conduct of Banking Business Directive No. 202 concerning capital components).

d. Reporting of exposure to counter-party credit risks

Management and the Board of Directors of the Bank and its committees, receive from management, supervision and control functions, a range of reports on the exposure to counter-party credit risks in various cross-sections.

EXPOSURE TO FOREIGN COUNTRIES

Balance-sheet exposure to foreign countries consists of deposits, bonds, credit to the public and the fair value of financial instruments.
Off-balance-sheet exposure consists of guarantees, off-balance-sheet credit risk with respect to financial derivatives and unutilized facilities.

Main exposures to foreign countries*(1) (NIS million)

	As at December 31, 2022			As at December 31, 2021		
	Balance sheet exposure(2)	Off Balance sheet exposure(2)(3)	Total	Balance sheet exposure(2)	Off Balance sheet exposure(2)(3)	Total
United States	**4,654**	**40**	**4,694**	3,122	65	3,187
Other countries	**3,926**	**443**	**4,369**	2,738	386	3,124
Total exposure to foreign countries	**8,580**	**483**	**9,063**	5,860	451	6,311
Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain)	**31**	**2**	**33**	21	1	22
Off which: Total exposure to LDC countries	**146**	**41**	**187**	219	39	258
Off which: Total exposure to countries with liquidity problems	(4)**16**	**1**	**17**	(4)17	2	19

* Including countries, the exposure to which exceeds 1% of total assets of the Bank on consolidated basis or 20% of capital, the lower of them.

(1) On the basis of final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off-balance sheet credit risk are presented before the effect of provision for credit losses and before the effect of deductible collateral for the purpose of indebtedness of borrower and group of borrowers.
(3) Off-balance sheet credit risk as calculated for the purpose of the limits on indebtedness of borrower.
(4) Most of the exposure is fully insured.

RISKS IN THE HOUSING LOANS PORTFOLIO

Credit policy at the Bank Group regarding mortgages

The Bank adopts a conservative credit policy that is approved by the Board of Directors of the Bank and that is examined yearly, and is updated in accordance with changes and transformations taking place in Israel, changes in regulation, etc. As part of this policy, the Bank currently follows developments in the mortgages portfolio and adopts different measures for the management of the risk inherent therein.

Risks are examined in accordance with the policy adopted in respect of risk appetite in the mortgage field, both at the level of the single transaction and at the level of the whole mortgage portfolio of the Group. The Bank manages the risks, inter alia, by imposing restrictions regarding certain parameters, such as the financing ratio (LTV), ratio of repayment to income, the rate of loans carrying variable interest, the rate of loans for long periods (exceeding 25 years), and more.

Upon the granting of a mortgage loan, the Bank examines the probability of default by using a statistical model, as well as examines the repayment ability of the borrower in possible scenarios of changes in interest rates. The Bank takes extra care in cases of assets the registration position of which is complex, while giving greater consideration to the quality of the borrower and to the financing ratio.

The Bank performs monthly control on the development of risk characteristic of the mortgage portfolio, in accordance with restrictions according to parameters of the credit policy. In addition, the Bank monitors changes in the volume of problematic debts in the mortgage portfolio, as well as the rate of arrears thereof, comparing the data with that of the whole banking sector.

Volume of housing loans

	For year ended December 31,		
	2022	2021	Change
		NIS million	%
Housing loans extensions			
Loans from bank funds	**7,124**	8,005	(11.0)
Loans from Treasury funds	**17**	26	(34.6)
Grants from Treasury funds	**13**	13	-
Total new loans	**7,154**	8,044	(11.1)
Refinanced loans from bank funds	**476**	929	(48.8)
Total extensions	**7,630**	8,973	(15.0)

	As at December 31,		
	2022	2021	Change
		NIS million	%
Balance of housing loans, net			
Loans from bank funds	**35,464**	32,185	10.2
Loans from Treasury funds*	**240**	263	(8.7)
Grants from Treasury funds*	**74**	55	34.5
Total balance of housing loans	**35,778**	32,503	10.1

* These amounts are not included in the stated sheet balances of housing loans.

Loan to value

One of the main parameters used by the Bank in examining the risk in the housing loan portfolio is the loan to value ratio (LTV). The LTV is calculated in accordance with Banking Supervision Division's Directive No. 876 - "Report on housing loans," and is the ratio between the amount of credit and the value of the assets serving as collateral on the date at the time the loan is approved. It should be noted that in itself, a rise in the value of the property does not constitute an event for the purpose of re-calculating the LTV. However, when additional credit secured by the same property is granted, the LTV can be calculated on the basis of a revised value appraisal.

The portfolio of housing loans extended from the Bank's sources on December 31, 2022 included 68% of credit granted at an LTV of up to 60%, as compared to 69% at December 31, 2021. 98% of total loans were granted at an LTV of up to 75%, similar to 2021.

Housing loan extensions from the Bank's sources in 2022 included 62% of credit granted at an LTV of up to 60%, compared with 65% in 2021. All loan extensions were granted at an LTV of up to 75%, similar to 2021.

The calculation of the LTV does not include loans which are not secured by an asset.

Debt-income ratio

Another key parameter used by the Bank in examining the risk in the housing loan portfolio is the debt-income ratio. This ratio enables the Bank to assess a borrower's ability to maintain current loan repayments in an orderly manner from the borrower's regular income at the date of the extension of the loan.

The portfolio of housing loans extended from the Bank's sources as of December 31, 2022 included 90% of credit granted at a debt-income ratio of up to 35%, similar to December 31, 2021. 99% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, similar to December 31, 2021.

Housing loan extensions from the Bank's sources in 2022 included 88% of credit granted at a debt-income ratio of up to 35% as compared to 92% in 2021. All of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% similar to 2021.

The calculation of the ratio does not include loans which are bullet and balloon.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of December 31, 2022 includes 60% of credit that was granted at floating-rate interest and amounts to NIS 21,381 million.

Housing loan extensions from the Bank's sources in 2022 include NIS 3,859 million of credit granted at floating-rate interest of up to five years constituting 54% of extensions. An amount of NIS 485 million is at floating-rate interest changing every five years and over, constituting 7% of extensions.

Long-term loans

The portfolio of housing loans from the Bank's sources as of December 31, 2022 includes 74% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 26,495 million.

Housing loan extensions from the Bank's sources in 2022 include 54% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 3,874 million.

Set out below are data on the development of the housing loan portfolio at the Bank alone by linkage segments (excluding credit from Treasury funds and after deduction of the allowance for credit losses)

	For residential purposes											Secured by a residential apartment	Total
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment		Total		
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Balance	Balance
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	NIS million	NIS million
31.12.22	**10,134**	**29.3**	**15,226**	**44.1**	**3,726**	**10.8**	**5,466**	**15.8**	**6**	**-**	**34,558**	**906**	**35,464**
31.12.21	9,100	29.1	13,686	43.7	3,568	11.4	4,951	15.8	8	-	31,313	872	32,185

Set out below are data on the development of housing loan extensions at the Bank alone (excluding credit from Treasury funds)

	2022	2021	2020	2019	2018
Total housing loan extensions (NIS million)	**7,124**	8,005	5,915	4,374	4,149
Rate of change in housing loan extensions compared with previous year	**(11.0%)**	35.3%	35.2%	5.4%	10.5%
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**0.08%**	(0.02%)	0.14%	0.01%	-
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.43%**	0.50%	0.59%	0.49%	0.50%

Update of Proper Conduct of Banking Business Directive No. 451 - "procedures for extension of housing loans"

On January 31, 2022, Bank of Israel published an update to Proper Conduct of Banking Business Directive No. 451 - "procedures for extension of housing loans". The purpose of the update is to facilitate the procedures regarding a mortgage loan application with respect to three aspects: transparency and comparability of loan terms, simplicity and easy understanding of the terms and efficiency in the processing of the loan.

The amendment to the Directive contains, inter alia, changes in procedures for the granting of an approval in principle, including formation of a uniform structure for the approval in principle, setting out three uniform mortgage options with the possibility of customizing an option in accordance with the needs of the borrower, presentation of the total anticipated interest and the total anticipated repayments, determining a defined time-schedule for replying to the application for an approval in principle, the possibility of submitting an application and obtaining approval also online or by telephone. In addition, it is requested to provide the public with an online calculator allowing simulation of different loan structures at different time ranges, including the uniform options, as well as information that a bank has to present on the Internet Application offered to customers, regarding the advisability of premature repayment of the loan.

PRIVATE INDIVIDUALS CREDIT RISK (EXCLUDING HOUSING LOANS AND DERIVATIVE INSTRUMENTS)

General

The banks in the Group grant consumer credit to a variety of households, made up mainly of individuals in employee positions, part of whom in the education system and part in the defense system.

The credit policy for private individuals reflects the risk appetite of the Bank and its intensions as to the risk levels it wants to take as well as the wanted profile for the private individuals credit portfolio and its volume in respect to the overall credit portfolio.

The policy is based on an internal system for the rating of credit risk relating to private individuals according to statistical models being currently updated, and to business rules and principles for the granting of credit, which take into account the repayment ability of the customer at the individual level as well as the analysis and evaluation by a range of additional parameters, which have an effect upon the financial stability of the customer.

This perception is well reflected in the credit policy of the Bank through quantitative and qualitative restrictions for the granting of credit at the level of the single customer and at the level of the Bank, as well as in control procedures and structured work procedures, in the different control lines.

Models of credit rating used by the banks in the Group both in the underwriting process of credit at the branches, and for the direct granting of credit via the Internet, the cellular application and via "International Bank Call". The credit recommendations derived from the statistical models together with procedures of the Bank based on the credit policy of the Bank and the qualitative and quantitative limitations included therein - shape the measured risk appetite of the Group as regards the consumer credit field.

In the retail credit field, the Bank focuses on credit typified by a high level of distribution and a low level of risk. Taking into account the fact that the subsidiary Massad Bank is also engaged in the credit field, the Bank operates from a Group viewpoint and acts for the implementation of an orderly work format of the Group, which defines, inter alia, a business focused format for each population in the Group. The targeted population is mostly a population having stable sources of income, which requires finance in the consumer field and has credit repayment ability, inter alia, designated populations having a joint connection on a country-wide level (such as: teaching personnel, Ministry of Defense personnel, etc.) having repayment ability or realizable collateral.

Teaching personnel loan tender are loans repaid by the direct withholding from salary. Most of the customers in the households segments in Otsar Hahayal branches are salaried employees, large part of them are former employees of the defense forces. Part of the loans to Ministry of Defense personnel are granted within the framework of different tenders, reflect the capitalization of rights for interim periods and are characterized by relatively large amounts and long periods. Moreover, within the framework of the terms of the tender, the responsibility of the Ministry of Defense for the repayment of the credit in default cases is determined, thus reducing to a minimum the risk of credit granted to Ministry of Defense personnel within this framework.

These loan repayments and additional loans to the defense personnel population as well as loans granted in the framework of collective agreements, are being withheld directly from salaries.

83% of the balance of the credit risk to private individuals is in respect of customers with fixed income credited to their accounts in an amount exceeding NIS 10 thousand.

Set out below is the distribution of Private individuals credit risk in Israel:

	As of December 31,		
	2022	**2021**	**change**
		NIS million	%
Current account and utilized balances of credit cards	**5,747**	5,449	5.5
Other loans	**17,786**	17,184	3.5
Total stated credit risk	**23,533**	22,633	4.0
Unutilized current account credit lines	**4,791**	4,686	2.2
Unutilized credit lines in credit cards	**7,954**	7,346	8.3
Other off-balance credit risks	**710**	910	(22.0)
Total off-balance credit risk	**13,455**	12,942	4.0
Total credit risk	**36,988**	35,575	4.0
Average volume of credit, including overdrafts, credit cards and loans	**22,297**	21,254	4.9

Set out below is the distribution of Private individuals credit risk of total debts in Israel:

	As of December 31,		
	2022	**2021**	**change**
		NIS million	%
Non-accruing credit risks	**98**	105	(6.7)
Accruing problematic credit risk	**157**	175	(10.3)
Performing credit risk	**36,733**	35,295	4.1
Total credit risk	**36,988**	35,575	4.0
Of which: performing debts in arrears of 90 days or more	**13**	22	(40.9)
Balance of restructured debts out of the problematic credit	**76**	102	(25.5)
Ratio of credit loss expense to total credit to the public	**0.07%**	0.01%	

Following is the distribution of credit risk relating to private individuals in Israel by fixed income credited to their accounts

				December 31, 2022
Fixed income credited to the account*	Total financial assets** lower than NIS 50 K	Total financial assets** higher than NIS 50 K	Stated Credit risk	Off-balance sheet credit risk
NIS thousands				NIS million
No fixed income	**334**	**89**	**423**	**242**
Up to 10	**3,282**	**424**	**3,706**	**2,097**
From 10 to 20	**4,963**	**1,411**	**6,374**	**3,503**
Over 20	**7,390**	**5,640**	**13,030**	**7,613**
Total	**15,969**	**7,564**	**23,533**	**13,455**

				December 31, 2021
Fixed income credited to the account*	Total financial assets** lower than NIS 50 K	Total financial assets** higher than NIS 50 K	Balance sheet Credit risk	Off-balance sheet credit risk
NIS thousands				NIS million
No fixed income	323	39	362	213
Up to 10	3,458	491	3,949	2,196
From 10 to 20	4,897	1,505	6,402	3,508
Over 20	6,411	5,509	11,920	7,025
Total	15,089	7,544	22,633	12,942

* Fixed income credited to the account as defined in the reporting instruction to the Supervisor of Banks No.836 (which includes actual salary on an average of the last 12 months, total annuities, cash deposits and check deposits).

** The financial assets portfolio related to the account, such as: monetary deposits (including current account balances), securities portfolios and other financial assets.

Distribution by average period to redemption (according to the last repayment date of the loan)

	December 31, 2022	December 31, 2021
		Balance sheet credit risk
Period		NIS million
Up to one year	**6,304**	5,953
From one to three years	**3,204**	3,203
From three to five years	**4,935**	4,752
From five to seven years	**2,817**	2,925
Over seven years	**6,273**	5,800
Total	**23,533**	22,633

Distribution by size of credit to the borrower*

			December 31, 2022			December 31, 2021
Credit range to the borrower	Stated credit risk	Off-balance sheet credit risk	Total credit risk**	Stated credit risk	Off-balance sheet credit risk	Total credit risk**
NIS thousands			NIS million			NIS million
Up to 10	**211**	**454**	**665**	213	456	669
From 10 to 20	**429**	**876**	**1,305**	421	866	1,287
From 20 to 40	**1,157**	**2,060**	**3,217**	1,180	2,015	3,195
From 40 to 80	**2,911**	**3,505**	**6,416**	2,944	3,382	6,326
From 80 to 150	**5,747**	**3,402**	**9,149**	5,772	3,267	9,039
From 150 to 300	**7,194**	**2,261**	**9,455**	6,875	2,181	9,056
Over 300	**5,884**	**897**	**6,781**	5,228	775	6,003
Total	**23,533**	**13,455**	**36,988**	22,633	12,942	35,575

* Definition of borrower - in accordance with the definition included in Proper Conduct of Banking Business Directive No. 313.

** Total credit risk - excluding indebtedness in respect of derivatives and excluding housing loans.

Distribution by type and extent of exposure to a significant growth in payments

	Balance sheet credit risk	
	December 31, 2022	December 31, 2021
Type of credit		NIS million
Current account	**1,639**	1,538
Credit card	**4,108**	3,911
Credit carrying variable interest	**17,082**	16,559
Credit carrying fixed interest	**704**	625
Total	**23,533**	22,633

Collateral

	December 31, 2022			December 31, 2021		
	Stated credit risk	Off-balance sheet credit risk	Total credit risk	Stated credit risk	Off-balance sheet credit risk	Total credit risk
			NIS million			NIS million
Total credit secured by collateral*	**4,628**	**432**	**5,060**	4,467	638	5,105
* Of which:						
Non-liquid collateral	**4,214**	**402**	**4,616**	4,048	612	4,660
Liquid collateral	**414**	**30**	**444**	419	26	445

Description of operations

A. The underwriting of credit to private individuals

The underwriting of consumer credit is conducted taking into consideration of personal parameters of the customer and reflects readiness for measured acceptance of credit risk. This concept is well reflected in quantitative and qualitative limitations, as well as by means of a wide array of structured work procedures and close control processes in the different control lines.

The banks in the Group offer credit to their customers on the basis of comprehension of the customer's needs, identification and the monitoring of his risk characteristics. As part of the underwriting process, several criteria that form a decision supporting tool are examined, inter alia, general information regarding the customer (his identity, financial stability, conduct of his account and any additional information which might assist in the underwriting process), the object of the credit, the volume of activity of the customer with the Bank in relation to the pricing of the transaction, repayment ability, the total credit mix in the account and the modification thereof to the customer's needs. This process is based upon values of fairness and transparency towards the customer.

B. The manner of supervising and monitoring risk characteristics

The banks in the Group have a high level of skill and expertise in the field of retail credit due to many years of experience in household credit.

The Group trains its employees at a high level of professional skill in the credit field, having decision supporting computer systems and control and monitoring systems for the early discovery of borrowers in default or of negative symptoms.

The Group hedges acceptance of credit risks, inter alia, by means of the distribution of risk among customers.

Risk management and the control thereof are conducted by means of an appropriate infrastructure of inspection, supervision, control and audit mechanisms. Control in the matter of consumer credit is conducted by means of three defense lines.

Controls conducted within the framework of the first line of defense include: the monitoring of deviation from current account and revolving debit account credit facilities, examination of problematic credit in arrears and follow-up of developments in the problematic consumer credit at the branches.

The second line of defense includes a range of controls, the essence of which is intended to test the financial management of accounts and to identify signs for deterioration in the debt situation. Deterioration signs may stem from a decline in the volume of operations, deviation from approved credit facilities, etc.

The third line of defense is the internal audit division, which is responsible for performing independent audits of risk management, work framework and controls over consumer credit risks, including the work of the first and second lines of defense in monitoring of this risk.

In addition, the Bank uses supporting computer systems, such as a system for the identification and treatment of debts showing trouble symptoms and a statistical system forecasting credit default.

CONSTRUCTION AND REAL ESTATE SECTOR RISKS

The Bank adopts a measured and careful credit policy, approved by the Board of Directors of the Bank, which is examined every year and is revised in accordance with changes in conditions in the country, both in the real estate sector in general, and in the credit field in particular, changes in regulation (such as: directives of the Supervisor of Banks and government regulations) etc. The said policy is expressed in the examination of the financing ratio, determination of different limitations, conducting sensitivity analysis with respect to financing of construction projects, examination of the ratio of the borrower's equity and requirement for early sales in order to reduce the risk to the extent possible.

Moreover, The Bank has adopted a specific policy in respect of the different lines of operation in the real estate and construction field, including the financing of housing construction, financing of income producing property construction, as well as financing of construction of income producing offices, commercial and industrial properties.

The processing by the Bank of new applications for the finance of real estate is characterized by different parameters, inter alia, the location of the property, geographic dispersal, designation of the property (residential/office premises/commercial/ industrial), type of transaction (National Outline Plan/ Price to the Purchaser Plan/ Targeted Price Plan etc.). Also examined are the level of risk arising in any financing mode in relation to the ratio of finance, the financing period and the quality of the borrower and his financial stability. In relation to all that stated above as well as to other parameters, the level of pricing and the profitability of the transaction are determined.

Over and above examination performed on a current basis, the Bank conducts periodic discussions with respect of all credit portfolios in the construction and real estate segment and examines the condition of the projects as well as the level of risk inherent in each, and reduces exposure accordingly. As a general rule, examination of the projects is performed on a monthly basis, based on construction progress reports by the supervisor of the project, where the examined risks are both at the level of market risk and at the level of execution risk.

The Bank strictly prices each transaction in accordance with the risk involved and with the required allocation of capital, using tools for the calculation of the return.

The provision for credit losses is computed in accordance with directives of the Supervisor of Banks, and is being determined also in respect of the construction and real estate segment in accordance with its characteristics. It is noted, that in addition to such quantitative measurement, the Bank reviews subjectively in each quarter, the need for an additional increase in the coefficients for the provision for credit losses in respect of the construction and real estate segment, taking into account developments in the business environment and additional indicators relevant to the level of risk inherent in the credit portfolio, and where required, increases the coefficients for the collective provision. An additional review is being performed also in respect of specific borrowers, and where required, a specific provision is also recorded.

In the last few months, decline in the demand for acquisition of residential appartements was recorded, this, among other things, on the background of the rise in inflation and the interest rate. The Bank is monitoring, on a current base, these trends. The proportional policy of the Bank, resulted in no material impact on the quality of the credit portfolio, being recorded.

Following are data of credit to the public risk in the construction and real estate sector:

	December 31	
	2022	2021
		NIS million
Overall credit risk(1)(3)		
Projects not yet completed		
Of which: Open land	**7,591**	3,630
Property under construction	**5,366**	4,893
Completed building projects	**5,958**	5,185
Other(2)	**5,946**	6,681
Total	**24,861**	20,389

(1) Of which: credit secured by residential property in the amount of NIS 11,428 million (a stated balance of NIS 8,169 million and off-balance sheet amount of NIS 3,259 million), credit secured by industrial property in the amount of NIS 974 million (a stated balance of NIS 859 million and off-balance sheet amount of NIS 115 million), and credit secured by commercial property in the amount of 6,513 million (a stated balance of NIS 5,715 million and off-balance sheet amount of NIS 798 million) (31.12.21 - NIS 7,522 million, NIS 800 million and NIS 5,386 million, respectively).

(2) Includes credit to borrowers in the construction and real estate field in Israel, the collateral provided by them does not include real estate, such as and mostly - infrastructure projects and credit to income producing property companies.

The ratio of credit not having a credit granting rating, to total credit risk in the construction and real estate sector as of December 31, 2022, amounts to 3.2%, as compared to 4.2% at December 31, 2021.

The ratio of problematic credit to total credit risk in the construction and real estate sector as of December 21, 2022, amounts to 0.8%, as compared to 1.3% at December 31, 2021.

LEVERAGED FINANCE

Leveraged finance is defined as credit granted for financing capital transaction by corporations (as defined in the Bank of Israel directive 323) that meets certain criteria, and credit granted to debtors characterized with high finance leverage levels.

The Bank considers leveraged finance as credit included in one of the following five classes:

A. Credit for the purpose of a capital transaction, as defined in Bank of Israel directive 323 (acquisition of shares in another corporation, acquisition of operations, purchase of own shares and distribution of capital), which meets certain tests regarding the volume of credit, the relating ratio of finance, and the volume of tangible collateral as determined by the Bank.

B. Credit for different business purposes, which meets certain tests indicating weak financial data, as determined by the Bank.

C. Credit provided for the finance of income producing real estate, which meets certain tests in respect of the volume of credit, the relating ratio of finance, the volume of tangible collateral and the financial data of the borrower as determined by the Bank.

D. Credit for accompanied construction projects purposes, which meets certain tests in respect to the volume of credit, the volume of tangible collateral, and the risk to which the project might expose the Bank, as determined by the Bank.

E. Credit financing the purchase of open land, which meets certain tests relating to the volume of credit, the relating financing ratio, the volume of tangible collateral and the financial data of the borrower as determined by the Bank.

In view of the high-risk characteristics of the leveraged finance, the policy of the Bank states stringent guidelines for underwriting and restrictions on the scope of exposure to leveraged finance.

The criteria according to which the Bank considers credit as leveraged finance were determined conservatively.

As of December 31, 2022, total aggregate balances (balance sheet credit and off-balance sheet credit net of provisions for credit losses and deductible collateral) considered as leveraged finance, amounted to NIS 547 million, as compared to NIS 489 million at the end of 2021.

SIGNIFICANT EXPOSURES TO BORROWER GROUPS

As of December 31, 2022, there is no borrower group which its indebtedness on consolidated basis, after deductions of permissible deduction according to section 5 of Directive 313, exceeds 15% of the bank's capital, calculated according to Proper Conduct of Banking Business Directive concerning measurement and capital adequacy.

MARKET RISK

GENERAL

Market risk (financial risk) is the actual or future existence of a risk of loss or impairment stemming from a change in the economic value of a financial instrument, a certain credit portfolio or a group of portfolios, and on a general level, due to changes in prices, currency exchange rates, margins and other parameters in the markets, including: interest risk, currency risk, inflation risk, share prices risk and volatility risk.

The year 2022 was characterized by restraining monetary policy, expressed by interests raise by central banks locally and globally, this on the background of high inflation data globally. The forecast for 2023 is, that the high inflation environment will be restrained, thus, the commissioners of the central banks in the world, will moderate the interest increases significantly.

The Bank is adopting variety of actions, in order to cope with the effects of the changes in inflation and interest rates on its customers, including performing stress tests and current tests examining the repayment ability of the customers, according to the different segments of activity, while providing specific care in accordance with the findings.

Furthermore, the Bank implements additional actions, in order to cope with the effects of these changes, including updating assumptions to the different models in the areas of credit and market risks, increasing the exposure to the variable interest segment, performing transactions to manage the exposure in the CPI segment and adjustment of the rate of collateral required in the capital market operations.

The Bank continues to monitor the different developments in the macro-economic situation.

POLICY AND RISK APPETITE

The Bank has a detailed policy for the management of exposure to financial risks. The policy document outlines and details inter alia, overall financial risk appetite and risk appetite segmented by single risks and operating principles.

The risk appetite of the Bank reflects measured readiness to accept financial risks corresponding to careful and measured banking activity, and corresponding to regulatory requirements and to the volume and nature of the Bank. As a general rule, the Bank endeavors to minimize financial exposures accepted by it, and acts towards creating appropriate profitability while accepting measured financial risks.

This concept is well reflected in the policy of the Bank by means of a very wide range of quantitative and measured risk/loss limitations in relation to the equity of the Bank. It is also reflected in close control procedures and work procedures structured within the different control lines.

SUPERVISION AND CONTROL OF MARKET RISK EXPOSURE MANAGEMENT

The Bank employs a suitable network of control, management, supervision, independent control and audit mechanisms with respect to the market risk management process. The managerial and review concept employed by the Bank is to detect, quantify and estimate exposure to market risks and to control the adherence to the restrictions prescribed.

Market risk management is examined and controlled on a current basis by special committees and forums at the Board of Directors, Management and middle-management grades (as detailed in the risk report in the internet website of the Bank).

REPORTING OF MARKET RISK EXPOSURES

The Management and the Board of Directors of the Bank receive a variety of reports on exposure to market risks in various cross-sections, containing, inter alia, developments in the risk and in the financial environment and adherence to restrictions. These reports are submitted by management, supervisory and control functions.

METHODOLOGY FOR THE ESTIMATION OF EXPOSURE TO MARKET RISK

The Bank manages and controls exposure to market risks by means of a number of generally accepted models and tools which include VaR calculations and the operation of stress tests, interest exposure management and control tools, such as: duration, fair value, analyses of sensitivity to changes in the interest-rate curve.

INTEREST EXPOSURE

General

Interest risk is the risk to earnings or equity stemming from fluctuations in interest rates, which affect the Bank's earnings by a change in net income, as well as affect the value of the Bank's assets, liabilities and off-balance sheet instruments, due to changes in the present value of future cash flows (and in certain cases, the cash flows themselves) following a change in interest rates. The main forms of the interest risk to which the Bank is exposed to are: risk of repricing, yield curve risk, basis risk and option risk. Interest risk in respect of the entire portfolio is one of the dominant risks to which the Bank is exposed in all matters relating to their effect on the fair value of assets and liabilities and its effect on earnings. The Bank manages the interest risks in accordance with the Bank of Israel directive 333 in the matter of interest risk management, with emphasis on interest risk relating to the banking portfolio. The Bank determined a policy for the management of interest risk, in accordance with the regulations.

Exposure management

Interest risk exposure is managed by means of examining the average duration of sources and uses and reducing exposure to erosion in fair value as the result of unexpected changes in interest rates, subject to the limits determined by the Board of Directors. In each segment the exposure for unpredicted change in the interest rate for all periods and different interest scenarios is measured, as well as its effect on the potential erosion of the economic value and the accounting profit for 12 months forward. The effect is measured in each of the segments separately, and in all segments together. The Bank's principal exposure to interest risks is attributed to financing activity in the non-linked shekel segment and in the CPI linked segment, stemming from the characteristics of the investment in those segments, which derive from the range of uses and sources in these segments.

In order to minimize the interest risk in the banking portfolio and as part of its assets and liabilities management, the Bank uses tools including the issue of bonds and activity in derivative financial instruments.

Risk appetite

- The interest risk appetite is conservative, as reflects in the restrictions, and the utilization of the exposure limits is conducted according to the Bank's estimates regarding expected interest rates and the structure of the interest curve in different time horizons and subject to the restrictions defined in the financial risks policy.
- The Bank has series of restrictions on changes in the interest curve and specific restrictions on the extent of interest exposure at the level of the dealing rooms and the interest-risk generating units and restrictions on the maximum erosion in fair value in stress scenario.

Actual exposure on the report date

Interest risk is measured on the basis of assumptions regarding the redemption periods of assets and liabilities. The effect of the early repayment of housing loans and of time deposits having early exit points is also taken into account in risk management.

Non-interest-bearing current accounts have credit balances at a stable amount over time. The Bank bases on specific model and determined that the redemption period of the stable current accounts will be for several years.

Sensitivity analysis to the effect of the exposure in changes in interest based on the fair value of financial instruments

Following are the details on assets and liabilities which are exposed to changes in interest according to their fair value, including sensitivity analysis as to the effect of potential changes in interest rates on the fair value of financial instrum ents of the Bank and its consolidated subsidiaries, excluding non-financial items, according to accounting rules:

Following are the details of the effect of changes in the interest rate on the fair value of the asset surplus in the segments, the net interest income and non-interest financing income:

1. Fair value of financial instruments of the Bank and consolidated subsidiaries, excluding non-financial items (before the effect of potential changes in the interest rates):

	December 31, 2022			December 31, 2021		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
			NIS million			NIS million
Adjusted fair value, net (1)	**9,062**	**152**	**9,214**	8,165	4	8,169
Of which: banking portfolio	**8,956**	**26**	**8,982**	8,301	(166)	8,135

Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 32A to the financial statements.

2. Effect of scenarios of changes in interest rate on the adjusted fair value[(1)] of the Bank and its consolidated subsidiaries:

	December 31, 2022			December 31, 2021		
	NIS	Foreign currency	Total	NIS[(5)]	Foreign currency[(4)]	Total
			NIS million			NIS million
Parallel changes						
Parallel increase of 1%	**76**	**13**	**89**	(27)	17	(10)
Of which: banking portfolio	**72**	**9**	**81**	(14)	18	4
Parallel decrease of 1%	**(57)**	**(8)**	**(65)**	105	(14)	91
Of which: banking portfolio	**(55)**	**(4)**	**(59)**	95	(15)	80
Non-parallel changes						
Steeping (2)	**(188)**	**24**	**(164)**	(132)	5	(127)
Flattening (3)	**222**	**(18)**	**204**	167	(10)	157
Interest increase in short term	**226**	**(12)**	**214**	134	(1)	133
Interest decrease in short term	**(217)**	**18**	**(199)**	(26)	3	(23)

The table presents the adjusted net fair value of all financial instruments, with the assumption that the change in interest occurred in all interest rate and in all linkage segments.

(1) Fair value of financial instruments, excluding non-financial items and after the effect of liability in respect to employees' rights and attribution of demand deposits to periods. Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 32A to the financial statements.
(2) Steeping- decline of interest in the short term and increase in interest in the long term.
(3) Flattening- Increase in interest in short term and decline in interest in the long term.
(4) In interest decline scenarios in the CPI linked and foreign currency linked segments, a negative interest environment was depicted.

3. Effect of scenarios of changes in interest rate on interest income, net and non-interest financing income:

	December 31, 2022			December 31, 2021		
	Interest income	Non-interest income	Total	Interest income	Non-interest income	Total
			NIS million			NIS million
Parallel changes						
Parallel increase of 1%	**200**	**2**	**202**	529	5	534
Of which: banking portfolio	**199**	**-**	**199**	528	-	528
Parallel decrease of 1%	**(575)**	**(2)**	**(577)**	(646)	(6)	(652)
Of which: banking portfolio	**(575)**	**-**	**(575)**	(646)	-	(646)

* After offsetting effects

The income sensitivity in the above table was calculated based on several parameters and different assumptions, among others, use of assumptions in respect of changes in the spreads of deposits, transition of funds from current accounts to deposits in case of interest raise, as against stability in the balances in case of interest decline and with the assumption of interest floor, so the different interest curves cannot be negative (can decline up to zero). During 2022, on the background of the changes in the interest environment, adjustments were made to the assumption at the base of the calculation.

BASIS EXPOSURE

General

Basis exposure is created as a result of unmatching in timing, in the basis of measurement and the investment amount with or without hedging activities.
Since capital is defined as a non-linked shekel source under accounting principles, the investment of capital in a segment other than the non-linked shekel segment is defined as basis risk exposure.

Exposure management

- Management of the basis risks and the investment of capital in the different linkage segments is based on current assessments and forecasts by various management entities at the Finance Department of the Resources Division regarding anticipated developments in the money and capital markets.
- The composition of the investment of capital in the different linkage segments is managed on a current basis subject to the restrictions, and on the basis of forecasts regarding the relevant market variables, while exploiting price differences between the cost of sources and the yield on uses in the different linkage segments and the feasibility of long or short positions in each and every segment of activity.
- In its linkage base management, the Bank uses, inter alia, derivative financial instruments as a means of neutralizing the exposure to linkage basis and interest risks.

Risk appetite

- The Board of Directors of the Bank has determined restrictions on the permitted positions (surplus or deficit) in assets and liabilities in the different linkage segments.
- In addition, Management of the Bank has prescribed individual restrictions on the extent of basis risk exposure at the level of the dealing rooms and the units that generate basis risks.

Actual basis exposure

Set out below is a description of the actual basis exposure by linkage segments (NIS millions):

	Actual basis exposure		% of active capital	
	As of December 31,		As of December 31,	
	2022	**2021**	**2022**	**2021**
Non-linked local currency	**3,432**	3,906	**31**	37
CPI-linked local currency	**4,999**	3,654	**45**	35
Foreign currency and foreign currency linked	**(79)**	(103)	**(1)**	(1)

Sensitivity of capital to changes in the exchange rate

The Bank operates in the currency markets by means of spot transactions, forward transactions and options on its own behalf and on behalf of its customers. The Bank operates using global negotiable currencies, and the total net currency exposure for the Group is low.

Most of the activity in derivative financial instruments is carried in the currency derivatives Shekel/Dollar for the Bank's customers. The Bank is not exposed in its derivative activity to material currency risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the exchange rates of the principal currencies as of December 31, 2022 (NIS millions).

The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

Percentage change in exchange rate	Dollar	Euro
5% decrease	**2**	**1**
10% decrease	**9**	**-**
5% increase	**4**	**(1)**
10% increase	**14**	**(1)**

NOTES:

(1) This effect is calculated in accordance with the expected change in the economic positions managed in different currencies, given the scenarios that were determined by the Supervisor of Banks.

(2) An increase implies the strengthening of the currency in question against the shekel.

(3) The data express the effects of changes in exchange rates on fair value after the tax effect.

(4) Changes in the exchange rates of other currencies have a negligible effect on the Bank's earnings.

Sensitivity of capital to changes in the CPI

The Bank operates in the CPI market by extending uses such as loans, mortgages and the purchase of bonds and by raising CPI linked funds. In addition, the Bank performs CPI forward transactions on behalf of its customers and itself.

The Bank is not exposed in its forward activity to material CPI risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the CPI as of December 31, 2022 (NIS millions).

The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

Percentage change in CPI	
3% decrease	**(99)**
3% increase	**104**

OPTION RISK

General

Option risk is the risk of a loss deriving from changes in the parameters that affect the value of options, including standard deviations.

Risk appetite

- The Bank's foreign currency dealing room trades in a variety of financial products, including options. Apart from the restrictions set on the amount of basis and interest-rate exposure, and in view of the sensitivity of options' economic value to changes in linkage bases, interest rates and specially to changes in the volatility of the underlying assets, Management has determined additional restrictions for the dealing room's activity in options.
- Restrictions have been determined with respect to activity permitted in options in terms of maximum loss under defined scenarios. The scenarios refer to simultaneous changes in the exchange rate and in the volatility of the underlying assets. Restrictions have also been determined on the maximum changes in the value of the options portfolio in terms of sensitivity indices (GREEKS), and the maximum erosion in the fair value in extreme situations.

Exposure management

Tools for the management of exposure to options risks include a Vol-Spot sensitivity matrix, which presents the exposure deriving from a combination of scenarios on the exchange rate and volatility. Also used is an RHO interest-rate curve risk exposure scenario, which examines the change in the value of the position in the event of 1% fluctuations in the interest curve. In addition, the Bank uses a Weighted Vega model for the management of exposure to volatility risk.

MANAGEMENT OF RISKS IN DERIVATIVE FINANCIAL INSTRUMENTS

General

The Bank operates in a variety of derivative financial instruments as part of risk management policy (base, currency and interest exposures), and as a service to its customers. These instruments include options (including option tracks), which is the area of activity with the higher element of market risk. In this respect, the Bank is mainly active in options on the exchange rates of a number of foreign currencies against the shekel.

Risk appetite

The Bank has a policy for the management of risks in derivative instruments, including restrictions on activity volumes of option tracks containing "implied" options, and the level of the maximum loss under certain scenarios in respect of the options in which the Bank acts as a market maker.
Investment in various derivative instrument is carried out after the measurement of each instrument and its adjustments to the financial needs of the Bank and its ability to operate in an optimal manner, as well as its ability to monitor the risk attached to it, both in the market risk and in the credit risk for transactions were the Bank acts on behalf of its customers.

Foreign currency dealing room

The foreign currency dealing room trades in a wide variety of foreign currency financial instruments. In addition, it was appointed by the Treasury as a chief market maker in local currency government bonds. The foreign currency dealing room is one of the most active dealing rooms in the banking system, operating in the currency market through spot transactions, interest transactions, OTC options and FX/NIS options traded on the Tel Aviv Stock Exchange.
The foreign currency dealing room acts in the main currencies, however, the main activity is in Dollar/Shekel.
The exposure created in the base and in the interest rate as a result of this activity is included within the restrictions approved by the Board of Directors for base and interest exposures.

Set out below is the volume of activity in derivative financial instruments (nominal value in NIS millions):

	December 31, 2022			December 31, 2021		
	Derivatives not for trading	Derivatives for trading	Total	Derivatives not for trading	Derivatives for trading	Total
Hedge transactions:						
Interest rate contracts	**3,522**	**-**	**3,522**	3,245	-	3,245
Other transactions:						
Interest rate contracts	**794**	**17,425**	**18,219**	1,499	13,471	14,970
Foreign currency contracts	**18,404**	**48,494**	**66,898**	22,552	50,774	73,326
Contracts on shares, share indices, commodities and other contracts	**85**	**55,189**	**55,274**	39	73,789	73,828
Total derivative financial instruments	**22,805**	**121,108**	**143,913**	27,335	138,034	165,369

Supervision and control of derivative instrument risk management

The Bank's activity in derivative financial instruments on its own behalf is controlled and supervised by the lines of defense and the exposures are reported in the risk report document.

SHARE PRICE RISK

Risk review and the way of managing it

The investment in shares and instruments reflecting share risk, is designated to improve the risks diversification and to vary the sources of income for the medium-long range in investing the free capital. The investment is carried out as a rule in Israeli shares traded in the TA 125 and leading share indices abroad, while performing due diligence on the worthwhileness of the investment prior to the acquisition.

Risk appetite

In addition to the regulatory restrictions regarding the volume of investment permitted to banking corporation in non-financial entities, the Board of Directors defined risk appetite for activity in shares. The Board of Directors established restrictions on the amount of investment, the mix of the investment- including restriction on the currency exposure and economic segments restrictions.

LIQUIDITY RISK

GENERAL

Liquidity risk is the risk that the Bank will have difficulty in honoring its liabilities due to unexpected withdrawals of deposits from the public, unexpected demand for credit, uncertainty regarding the availability of sources and other unexpected liabilities, including sharp decline in the value of liquid assets available to the Bank. Materialization of the risk might cause the Bank shortage in liquid means, that will force the Bank to realize assets in prices lower than the market prices and/or raise funds in a price higher than market prices and in extreme situations might endanger the stability of the Bank.

LIQUIDITY COVERAGE RATIO IN ACCORDANCE WITH PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 221

The Bank calculates the LCR (Liquidity Coverage Ratio) in accordance with Proper Conduct of Banking Business Directive No. 221, which is based on the Basel Committee recommendations.

The liquidity coverage ratio is a Standard intended to improve the short-term resilience of the liquidity risk profile of the banking corporations, ensuring it by way of a requirement that banking corporations should maintain an adequate and non-pledged amount of high-quality liquid assets (HQLA), which may be converted into cash in a fast and easy manner on private markets, so as to provide response to liquidity requirements in stress situations, which continues for thirty calendar days.

The Standard states a specific framework for the computation of the liquidity coverage ratio with the aim of creating uniformity on an international level.

The liquidity coverage ratio (LCR) contains two components:

(a) The value of high-quality liquid assets (HQLA) under stress scenario.

(b) Total net cash outflows during the next thirty calendar days, computed according to the parameters of the stress scenario.

The ratio is computed as a proportion of the high-quality liquid assets to the total net cash outflow during the next thirty calendar days. Starting from January 1, 2017 the minimal regulatory requirement for the LCR, both at the Bank level and at the Group level, is 100%. However, in times of financial stress, a banking corporation can deviate below this level, but it has to report the deviation immediately to Bank of Israel, and in certain cases, with a plan to close this deviation.

The Bank adheres to all the regulatory liquidity risk restrictions for 2022.

As part of the policy of management of financial risks, the Board of Directors adopted an internal restriction, which is stringent than the regulatory restriction for LCR, both for the banking entity solo and consolidated.

Set out below is the liquidity coverage ratio consolidated and the Bank:

	For year ended December 31,	
	2022	**2021**
		%
Liquidity coverage ratio consolidated data	**127%**	128%
Liquidity coverage ratio Bank data	**127%**	128%
Minimal liquidity coverage ratio as per the Supervisor of Bank	**100%**	100%

NET STABLE FINANCING RATIO - NSFR

On June 21, 2021, the Supervisor of Banks published Proper Conduct of Banking Business Directive No.222 in the matter of Net stable financing ratio - NSFR. The Directive states the manner of computing the ratio, as stated in the Basel 3 Reform of the Basel Committee (BCBS). The ratio is intended to improve the long-term durability of the liquidity risk profile of banking corporations, by requiring banking corporation to maintain a stable financing ratio, in accordance with the composition of their stated assets and of their off-balance sheet operations. The ratio limits over reliance by banking corporations on short-term wholesale finance.

The NSFR contains two components: available stable financing items and required stable financing items.

Available stable financing is defined as part of the capital and liabilities that can be relied on over the time range taken into account in the NSFR, covering a period of one year. The amount of the required stable financing is a function of the nature of liquidity and the outstanding periods to redemption of the different assets held by the Bank, as well as the off-balance sheet exposures.

Set out below is the net stable financing ratio:

	December 31, 2022	December 31, 2021
		in percentages
Net stable financing ratio (consolidated)	**133%**	*139%
Minimal net stable financing ratio required by the Supervisor of Banks	**100%**	100%

* Restated.

RISK MANAGEMENT POLICY

The Bank applies a comprehensive policy for the management of liquidity risk in Israeli currency and in foreign currency, at the level of the Group, the Bank and the banking subsidiary, in accordance with the requirements of Proper Conduct of Banking Business Directives Nos. 342 and 221.

The policy includes, inter alia, restrictions of the liquidity coverage ratios, minimal liquidity ratios in ordinary scenarios and in stress scenarios, and reference to measurement, supervision and control tools and the reporting mechanisms that have to be maintained as part of the current liquidity risk management.

Furthermore, the Bank has established a methodology assisting the identification of a liquidity crisis at the Bank, this in order to ensure the ability of the Bank to withstand the challenges arising from current business management, and those which might arise in case of pressure situations in the financial markets.

RISK APPETITE

The Bank and the Group endeavors to sustain appropriate inventory of liquid assets, concurrent with the management of uses that will produce income to the Bank.

The Bank attributes great importance to the conservative though active liquidity management of the Bank. The Bank's and the Group's risk appetite in this aspect is conservative and is expressed in the structure of assets and liabilities, in the maintenance of management, control and supervision tools allotted to this matter, and in the management and control layouts in charge of management of this risk.

SUPERVISION AND CONTROL OF LIQUIDITY RISK EXPOSURE MANAGEMENT

The control concept applied by the Bank is that of identification, quantification and assessment of risk and control of adherence to restrictions currently prescribed by the procedures, both by exposure managers and by independent control and audit functions, with a view of ensuring the ability to face also exceptional demand and supply situations in the financial markets.

Liquidity risk exposure management is being tested and controlled on a current basis by designated committees and forums at the levels of the Board of Directors and Management in the first, second and third lines of defense.

REPORTING ON EXPOSURE TO LIQUIDITY RISKS

- A daily liquidity risk report in shekels and in foreign currency is produced.
- Reporting on shekel and foreign currency liquidity risk positions in comparison with the activity frameworks and restrictions determined by the Board of Directors and authorities for their management are reported three times a week at the Current Matters Committee, which is headed by the CEO or by the financial risks manager.
- Reporting on positions is collated in the quarterly "risks document," and current brief on the exposure to liquidity risks as necessary.

MANAGEMENT OF LIQUIDITY RISK ON A GROUP BASIS

The banking subsidiary is responsible for maintaining an independent policy of short term and long term liquidity management, while complying with the directives of the regulatory authorities and in conformity with its nature of operations and its liquidity needs.

In addition, the banking subsidiary adhere to its own liquidity ratio.

There are no material restriction or limitations on transferring funds within the group over and above the restrictions applying to performing transactions of any kind.

LIQUIDITY POSITION AND THE COMPOSITION OF ASSETS AND LIABILITIES

The main liquid assets of the Group, which include: cash, deposits at Bank of Israel (current and monetary deposits), deposits with banks and marketable securities, amounted to NIS 72.5 billion on December 31, 2022, compared with NIS 71.3 billion at the end of 2021. Of this amount, the balance of cash, deposits with Bank of Israel and deposits with banks accounted for NIS 57.1 billion, and NIS 15.4 billion were invested in securities, principally Israel government bonds in NIS and foreign currency and securities of US government.

The ratio of deposits from the public to credit to the public, net, on December 31, 2022 amounted to 145.1% compared with 151.7% on December 31, 2021.

At the end of December 2022, deposits from the public, bonds and subordinated notes totaled NIS 173.0 billion, compared with NIS 156.8 billion at the end of 2021.

The composition of the assets and liabilities of the Bank shows high liquidity. This, as a result of the policy to raise diversified and stable funds, while emphasizing on raising sources for medium and long periods from diversified customers sectors and in different currencies.

The Bank has sources in a contractual duration for a short-medium terms, which the Bank anticipate that they will be stable for a long period of time. The uses are both for short term and medium-long term.

For information regarding details of assets and liabilities according to currency and maturity date - see note 31 to the financial statements.

Balance of deposits by the three largest depositors groups:

	As of December 31, 2022	As of December 31, 2021
		NIS million
1	**5,319**	4,436
2	**4,021**	2,689
3	**3,706**	2,275

FINANCING RISK

GENERAL

Financing risk is the risk of shortage in financing sources and might be deriving from an unstable structure of sources in the long run to cover the anticipated uses.

The Bank has diversified stable financing sources, mainly from deposits from private and business customers, long term deposits from financial institutions, as well as issuance of bonds and subordinated capital notes.

The financing risk at the Bank is managed as part of the liquidity risk management, by imposing limitations and targeting the concentration of the financing sources, and reducing the dependence on material counter parties.

Part of the monitoring of this risk is carried out by monitoring of indicators in respect of the structure and concentration of the sources on a current basis.

OPERATIONAL RISK

GENERAL

According to the definition of Proper Conduct of Banking Business Regulations No. 350, operational risk is the risk of loss resulting from the impropriety or failure of internal processes, from individuals or systems or resulting from external events. The definition includes legal risk, fraud and embezzlement risks, information technology, data protection and cyber risks and business continuity, but does not include strategic risk or reputation risk. (The various aspects of legal risk exposure and management are discussed extensively in a separate section).

Operational risks comprise an integral part of the overall risk layout relating to the processes of the Bank, since operational risks are structured within all types of business operations, and work procedures at the Bank, and in the cross-processes and supporting systems.

Risk management is conducted with a view of evaluating and monitoring the operational risks relating to the processes of the Bank, including embezzlement, fraud and unethical behavior, minimizing such risks and reducing the respecting monetary damage, while considering the cost against risk reduction.

POLICY

The Board of Directors of the Bank has prescribed an overall and comprehensive policy for the management of operational risks, in accordance with Proper Conduct of Banking Business Regulations 310 and 350, setting the risk appetite and outlining the control environment, the corporate frameworks and the managerial functions that will be operated for the purpose of managing and minimizing exposure to operational risks at the Bank. The policy also includes reference to a line of risk management processes, from the level of risk identification, assessment, and measurement, reduction and monitoring of the risks.

EXPOSURE MANAGEMENT

1. Systems and work procedures

One of the central tools for the mapping and identification of the operational risks and for controlling and supervising these risks is the operational risk survey. The survey includes the mapping and documentation of the business processes and the operational risks and controls regarding these processes, including fraud, embezzlements and unethical behavior, also with respect to the database concerning failure events and audit findings, assessment of risks and their mitigation by implementation of new controls, reinforcement of controls, etc.

The Bank conducts periodical operational risks survey, approved by the Board of Directors. Additional tools include operational risks surveys to systems, as well as, survey for estimation of cyber risks. Furthermore, the Bank conducts, on a current basis, risks management for the identification of risks focal in new products, processes and services at the Bank, in accordance with the policy of risks management in new products, processes and services.

Following the findings of the risk surveys performed, the findings of the internal audit and the drawing of conclusion in respect of failure events, mechanized and other controls are combined in the different activities in the Bank, and improvement and upgrading of work processes is made.

In addition, and as part of the monitoring and control infrastructure, key risk indicators (KRI) for operational risks regarding selected processes have been defined for the early detection of changes in the risk map.

2. Failure event collation

The Bank collates and documents loss events (events that caused or nearly caused a loss/profit, provision for lawsuit) for the purpose of data base for quarterly and annual analysis of trends and risk centers, for presentation to Management and the Board of Directors, for estimating the operational risks in business processes, for verifying estimates made by contents experts, for the drawing of conclusions, for a reexamination and improvement of existing controls, and for updating the risk map and for keeping a history of shortcomings.

The Group also conducts a lesson learning process also in respect of significant external events reported in the media.

3. System for measurement, estimation and management of operational risks

The Bank manages the risks map by means of a joint system for the management of operational risks and compliance risk management, which supports the methodology of management of the operational risks. The central data base of the system includes the mapping and documentation of the risk surveys performed in respect of the processes at the Bank, the recommended controls and the failure events.

BUSINESS CONTINUITY PLANNING

Bank of Israel directives require the banks to take action in order to assure business continuity in an emergency. In accordance with the Proper Conduct of Banking Business Directive 355 on the subject, the Bank has made the appropriate preparations for disaster recovery and business continuity in the event of emergencies. The Bank makes preparations that are comprised of several layers: formulation of a comprehensive policy document on business continuity, a working framework in respect of business continuity detailing suitable technological infrastructures, compilation and assimilation of comprehensive plans of action and a supporting system of procedures, and exercises simulating emergency situations. The Bank has a group emergency situation room and a group emergency assessment forum under the authority of the Head of the Risk Management Division, who collates this activity at the entire Group. The forum is responsible for applying policy and procedures, and for monitoring the Group's preparations for emergencies, and convenes at least once a quarter. Management and the Board of Directors hold quarterly discussions on business continuity and preparations for emergencies. The Bank upgrades its business continuity planning on an ongoing basis. In this respect, revisions are made of all critical activities and resources required in an emergency, and the emergency scenarios and policy document are updated accordingly.

INFORMATION TECHNOLOGIES RISK

The risk of failure in information and/or in information and operational systems of the Bank, as well as inappropriate and insufficient support of the business services and processes required by the Bank in order to realize its business goals. In view of the fact that in recent years the technological environment is developing and dependence on it is even increasing, need has been created for enlarged business and technological flexibility and the need for increasing the use of new technologies.

The risk is being managed according to the information technology management policy and in accordance with Proper Conduct of Banking Business directive No. 357. Likewise, in accordance with Proper Conduct of Banking Business Directive No. 301, a Technologies, Innovation and Administration Committee of the Board of Directors is in operation.

Moreover, The Bank acts in accordance with the policy regarding management of new products risk, and in this framework, risk management processes are performed upon the introduction of new systems/technologies.

RISK MANAGEMENT IN AN ICLOUD ENVIRONMENT

The Bank applies a policy using iCloud computing within the framework of its information technology management policy, as approved by Management and the Board of Directors. The Bank acts in accordance with Directive 362 in the matter, which determines guidelines and terms required for the use by a banking corporation of the iCloud computing technology, and which emphasizes the need for risk management in respect of each of the uses of iCloud computing technology.

The policy document was updated during 2022, in accordance to the amendment to Directive 326, which was published on June 13, 2022, in the framework of which, *inter alia*, was added unique requirements for the Board of Directors and Management, in respect of the use of iCloud services, new requirements were added in respect of risks assessments of the Bank, as well as, new requirements and instructions in respect of engagement with significant providers of iCloud services.

DATA PROTECTION

Management and Board of Directors of the Bank have prescribed a detailed policy on the matter of data protection policy in accordance with Proper Conduct of Banking Business Directive 357- "Management of Data Protection" and appointed a data protection manager who is in charge of data protection risks management. The Bank performs all the reviews and mapping required to adhere to the Directive. The Bank implements Bank of Israel directives concerning the social media and implements the guidelines of the privacy protection regulations.

DATA PROTECTION RISKS AND CYBER DEFENSE

In accordance with Proper Conduct of Banking Business Directive 361 concerning management of cyber defense, Management and Board of Directors of each entity in the Group defined the strategy of defending cybernetic attacks and the policy for cyber defense.

The manager of data protection of the Group was also appointed as the cyber defense manager of the Group, in accordance with a permit by the Bank of Israel.

Cyber-attacks are carried out with the aim of causing large-scale damage by harming strategic services. The damage expected from such attacks could adversely affect the credibility, propriety and confidentiality of the Bank's data and/or the operative readiness of its systems. This damage could harm the business activity of the Bank and have a direct impact on the activity of its customers.

In order to cope with cyber-attacks, in addition to overall data protection activity, the Bank maintains a specialized, comprehensive network for protecting against such attacks. This defense network includes human aspects, technical devices and processes for reducing the vulnerability of the Bank's infrastructures and the impact on its customers, on the basis of special attack scenarios defined by the Cyber Defense Manager.

The innovation of online banking, use of new technologies, open systems and iCloud applications, increase the probability of materialization of a cyber event. As a result, in order for proper management of cyber risks, the existing framework of management of information technology risks and data protection at the Bank, was expanded and adjusted, to the perception of the threat's space and the required defense abilities. In addition, the monitoring of the risks was intensified and controls and other means are implemented, in accordance to the developments of the threats.

The data protection and cyber defense department conducts cyber drills to check the technological preparedness, the infrastructure preparedness, as well as, simulations for the examination of complex scenarios.

In addition, the methodology for the cyber risks mapping was determined and cyber risks review is conducted.

The Bank implements the guidelines of Proper Conduct of Banking Business Directives 363 - "Management of cyber risks in chain of supply" and 359A - "Outsourcing", which were issued by Bank of Israel, and which relate to the activity of the Bank with its service providers. In addition, the Bank complies with the control requirements of the global SWIFT Company.

SUPERVISION, CONTROL AND REPORTING OF OPERATIONAL RISK MANAGEMENT

The Bank maintains a suitable system of mechanisms for the control, management, supervision and audit of the operational risk management process. Operational risk management is examined and reviewed by the Board of Directors, Management and the middle-management grades, as detailed in the risks report at the internet website of the Bank.

ENVIRONMENTAL AND CLIMATE RISKS

GENERAL

The risks from exposure to losses in respect of environmental effects, due to costs stemming from exposure to environmental risks (environmental damage- soil contamination, air pollution, water shortage, earthquakes, etc.) and costs stemming from the exposure to climate risks (physical risks- heatwaves, droughts, floods, floodings, etc.), or transitional risks relating to climate changes. These risks have implications in a number of aspects, either directly or indirectly: credit risk, market risk, operational risk, legal risk, compliance risk and reputation risk.

Direct effect - as a result of costs of environmental hazards, which the Bank may have to bear in respect of direct damage related to climate changes, or a monetary loss that might be caused as a result of the adoption of instructions regarding climate and environment policy, technological developments and changes in market preferences.

Indirect effect - such as on credit risk, which may stem from deterioration in the financial condition of a borrower, following environmental effects and climate changes, inter alia, following noncompliance with relevant statutory environmental requirements, due to the considerable expenditure required for compliance with environmental regulations, or due to a high monetary penalty that may be imposed regarding environmental damage, as well as the materialization of other risks related to environmental risk, such as reputation risk.

The Bank takes action for the identification and management of the environmental risk, emphasizing credit risk, while endeavoring to minimize or avoid risk stemming from environmental effects, which have a potential of damage. The Bank attributes great importance to the financing of projects/entities contributing to environmental development, such as the financing of renewable energy projects.

RISK MANAGEMENT, POLICY AND RISK APPETITE

The Bank has a detailed environmental risk management policy, being part of its credit risk policy, which defines the methodology and work procedures for the monitoring of environmental risks related to the granting of credit. The Bank takes the subject into account in its decisions for extension of credit to customers belonging to economic sectors that the Bank monitors as having an especially high environmental risk, and considers the potential credit risks of these customers. Exposure of the customer to these risks affect the relevant credit decisions, and is taken into account in the overall considerations for the granting of credit. Furthermore, direct physical risks are embedded in the framework of operational risks management and business continuity. Likewise, the Risk Management Division maintains control over compliance of the Bank with environmental statutes.

The Bank takes action to identify the material environmental risks relevant to its operations, and to examine the need for setting out a line of key risk indices (KRI's) for each of these risks, while examining the integration of such risk in its general risk appetite.

Likewise, the Bank acts towards expanding the monitoring of environmental risks to which it is exposed, in order to ensure that it is integrated into all frameworks of its operations and in its risk evaluation processes, including frameworks for the management of market, liquidity, operational and reputation risks.

The Bank intends to examine the addition of physical risks and transition to stress event risks existing in its different areas of operation.

The Bank is in the midst of the process for determining specific targets and indices in relation to environmental risk.

OTHER RISKS

LEGAL RISK

GENERAL

Legal risk is included in operational risk as defined in the Proper Conduct of Banking Business Directive 350 ("Operational risk management") and includes, but is not limited to, "exposure to fines and punitive damages as the result of supervisory activity as well as private settlements." The Bank adopts an expanding approach to this definition and includes under legal risk the risk deriving from failure to observe legal directives, including regulatory directives, the risk of a loss resulting from the inability to legally enforce an agreement, risks deriving from activity without legal backing/legal advice vis-à-vis the customer, suppliers and/or other parties, risks involved in legal proceedings, and other risks that could expose the Bank to lawsuits, as well as fines and sanctions.

RISK APPETITE

The Bank adopts a conservative policy of a low-risk appetite with respect to the conclusion of legal agreements and commitments, and carries out its business activity with suitable legal assistance and support, with strict insistence on compliance to all legislative and regulatory directives and the restrictions and obligations derived from them. Without detracting from the aforesaid, the Bank adopts a policy denying any conscious action the result of which may lead to a criminal charges or to criminal or administrative sanctions against the Bank or against any of its Officers, and also adopts a policy of zero tolerance in all matters concerning risk resulting from the violations of the provisions of law which constitute a criminal offense or an administrative offense.

POLICY AND EXPOSURE MANAGEMENT

The Bank operates in accordance with a legal risk management policy, detailed in this respect are legal risk and ways of identifying, mapping and minimizing it.

The Bank's Legal Department itself, or through external legal counselors, monitors on a current basis, developments in legislation, regulation and in court rulings which could affect the current activity of the Bank, and provides consultation, back-up and legal support to the Bank and its different units. The Bank endeavors to minimize risks on the basis of these developments and their implications.

In addition, the legal department conducts, as needed, updates in the legal documents used by the Bank, in framework agreements to which the Bank is a party and legal opinions, which are the basis for contracts and/or guidelines to different activities.

The legal department also acts to identify legal risks in advance, including by means of examination of any new product or activity, compiling all of the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.

Furthermore, procedures for the operation of head office and branches were set, and instruction for their implementation are made, on a current basis, with emphasis on the legal matters involved in the operation of the Bank.

The periodic review of operational risks includes an examination of the activities of the Legal Department. Risks identified are assessed, measures for mitigating them are stipulated and lessons are learned to prevent any recurrences.

REPORTING ON LEGAL RISK EXPOSURE

- Exposures to legal risks are collated and reported in the quarterly Risks Document, which is discussed once every quarter by Management, by the Risk Management Committee of the Board of Director and by the Board of Directors.
- On the occurrence of a material event of a legal nature, an immediate report on the event, the extent of its impact and the manner of its impact on the Bank is submitted to the Legal Risks Manager.

The Legal Risks Manager advises on the measures that should be taken in order to minimize the level of exposure to the legal risk, and is assisted by the employees of the legal department and/or external legal counselors, the internal audit, the compliance officer and the officers in charge of the internal enforcement in securities laws and competition laws and the officer in charge of privacy protection, where required. Material events, which are relevant to the officers in charge of the internal enforcement in securities laws and competition laws, are reported to them immediately.

GROUP MANAGEMENT OF LEGAL RISK

The Legal Department operates as a head office unit of the Group for the management of legal risks, and is responsible for defining group legal risk management policy.

Material legal risks at the Group are reported to the Manager of the Legal Department, in both immediate and periodic reports. The Group also maintains mechanisms for coordination regarding relevant legal issues and the current periodic updating of information.

RISK MANAGEMENT IN THE NIS AND FOREIGN-CURRENCY SECURITIES PORTFOLIO-MARKET AND INDEBTEDNESS RISKS

a. The Board of Directors of the Bank have determined in the financial risk policy document detailed policy and risk appetite with respect to the Bank's activity in the foreign-currency and Shekel securities portfolio, and have also determined investment restrictions and guidelines from the credit aspects and from the aspect of exposure to counter-party risks and to market risks, interest and liquidity. This policy is examined by the Board of Directors and its committees at least once a year, and in a more dynamic manner on the basis of developments in the financial markets that may affect the Bank's exposures.

b. The Bank invests only in the bonds of companies that have, as of the purchase date, a minimal investment rating as set in the policy of management of financial risks, and this after examining the quality of the issuer's credit, the market risks inherent in the investment and the bonds' liquidity.

c. Once an investment is made and as part of the management of the risks in the foreign currency and Shekel securities portfolio, the Bank monitors the macroeconomic and sector-specific developments relevant to its investments.

d. As part of the risk management supervision and control mechanisms, the Bank has devised a format for reporting on the nature and the extent of the positions in the securities portfolio managed. Reports are sent to the decision-making entities and to the control entities. The main elements of the Bank’s reporting format are:
   - Immediate reporting on discovery of a deviation from restrictions and procedures.
   - An immediate report on the opening of margins, a change in rating and any other exceptional event in the portfolio, and as necessary.
   - A weekly report to the two-days Current Matters Committee chaired by the CEO or the financial risk manager on the opening of margins, new purchases, sales and exceptional events.
   - Every second week investment meeting, chaired by the financial risk manager.
   - At least once a quarter discussion headed by the CEO, on the composition of the portfolio, developments in exposure and trends in the financial markets.
   - A report six times a year to the Board of Directors’ Risk Management Committee.
   - A quarterly report within the framework of the overall risks document.
   - A report every second month to Management's Assets and Liabilities Management Committee, which is chaired by the CEO and with the participation of the Chief Risk Officer.

   For details of the securities portfolio, see the section above on the composition and development of assets, liabilities, capital and capital adequacy, and Note 12 to the financial statements.

COMPLIANCE RISK

GENERAL

- Compliance risk is the risk of imposition of legal or regulatory sanctions, of a material financial loss or damage to image which a bank may sustain as a result of violation of compliance rules.
- Proper Conduct of Banking Business Directive No. 308 of the Supervisor of Banks requires banks to act in order to maintain all statutes and rules of conduct applying to the different banking operations of a bank. An update to the Directive published in December 2019, added the duty of studying also significant changes occurring outside of Israel regarding compliance rules enforcement policy applied outside of Israel and which apply to a banking corporation, including activity of customers. Identification and assessment processes found at the basis of the update, are to include also conclusions drawn from significant compliance events, and shall be established in the procedures of the banking corporation, or in another documented manner that would ensure their absorption in the process.

  The Bank acts for an initiated and organized gathering of foreign regulation updates relating to the main countries relevant to the cross-border operation of Bank customers.
- The compliance rules, as defined in the amendment to Directive 308 mentioned above, comprise a set of laws, regulations, regulatory instructions (for this matter also positions taken by the Supervisor of Banks in dealing with public complaints), binding legal precedence, internal procedures and the ethical code applying to the banking activity of the Bank.
- The duties applying to the Bank are cross-organization duties relating to a large variety of operations, procedures and products, conducted by the Bank on a daily basis.
- The Bank has adopted an internal enforcement program for the securities laws which is based on a comprehensive mapping of the relevant law orders and the Bank's procedures and processes, and prescribes procedures and guidelines for the continuing application of the program. This is in accordance with the criteria which the Securities Authority issued on the subject. The Bank appointed the Head of the Risk Management Division and CRO of the Bank as the supervisor on the internal enforcement program of the securities law. The Bank conducts a follow-up on the application of the internal enforcement program for the securities law, among others, by executing controls and audits in the securities laws area. The Bank also takes actions in assimilation of knowledge in this area. The Board of Directors approves once a year, a working program to the officer in charge on the internal enforcement in securities law, separated from the working plan of the compliance department.
- The Bank has adopted an internal enforcement program regarding economic competition legislation. The Bank has established procedures and different processes for the continuing implementation of the program. The Bank has appointed the Chief Compliance Officer of the Bank as the function in charge of internal enforcement at the Bank of economic competition legislation. The bank performs monitoring of the execution of the enforcement program with respect to economic competition legislation, inter alia, by means of performing controls and also by taking action to absorb information in this field. The Board of Directors approves once a year, a working program to the officer in charge on the internal enforcement in economic competition legislation, separated from the working plan of the compliance department.
- The Bank acts for the implementation of the statutory rules regarding privacy protection. An officer in charge of privacy protection has been appointed, serving directly under the Chief Compliance Officer, and who is responsible for the implementation of an up-to-date control programs and for the implementation of knowledge in this area.

POLICY

The Board of Directors prescribed and approved a Group compliance policy. The policy determined, inter alia, the structure of the compliance function, the various factors involved in the implementation of the policy, allocation of responsibilities for the control in the second line of defense of the various compliance requirements, in accordance with the rules prescribed in the Directive, etc.

RISK APPETITE

The Bank and the Group have adopted a policy of scrupulous insistence on matters relating to compliance risk. With respect to infringement of the provisions of the law and the Bank's procedures relating to the provisions of the law, the Group will monitor the compliance directives applying to it and will ensure that all of the Group's employees act in accordance with them. All of the Group's transactions will be conducted in accordance with the Bank's procedures, the ethical code and all laws and regulations. The Group endeavors to assimilate an organizational culture of honesty and ethical standards as an essential basis for the existence of a compliance culture at all levels of the organization.

EXPOSURE MANAGEMENT

- In order to abide by the Directive, the Bank has established a Compliance Department (hereinafter - "compliance function" or the "the function"), which is subject to the Chief Compliance Officer and serves as an independent function responsible for compliance risk management at the Bank. Moreover, the Chief Compliance Officer was also appointed as Regulation Officer ("RO") in charge of the implementation of legislation rules and instructions regarding FATCA, the aim of which is to enforce reporting mechanisms with respect to bank accounts of American citizens held outside the US, as RO in charge of verifying the implementation of the Qualified Intermediary ("QI") rules, which apply the reporting requirements and the withholding of tax from certain payments not only to accounts of American foreign residents but also to other accounts recording income from US sources, as well as officer in charge of verifying the implementation of the common reporting standards (CRS) rules, which similarly to the FATCA rules, are aimed at regularizing the manner of the automatic exchange of information between countries signing this agreement, with respect to financial accounts of foreign residents.
- The function is responsible for collating control at the Bank over adherence to the compliance rules under its responsibility, in accordance with the compliance policy and the annual work program, and for reporting on deficiencies and gaps to all echelons of authority at the Bank.
- Working alongside the Chief Compliance Office are:
    - Compliance supervisors at each of the Bank's branches and the head-office.
    - A forum for monitoring the application of statutory directives that monitors the implementation of the new compliance directives as well as discusses proposed drafts of directives, Bills, Bill Memorandums, etc.

EXPOSURE REPORTING

- Quarterly report within the quarterly risk document, which includes a summary of the function's activity, recommendations, details on violations of compliance directives which were identified in the course of the period reported, recommendations regarding the measures that need to be taken with respect to preparations for applying a new compliance directive, as well as an annual detailed report summarizing his activity in the previous year.
- In addition, the compliance policy prescribed by the Board of Directors, defines immediate reports to Management and Board of Directors.

MANAGEMENT OF COMPLIANCE RISK ON A GROUP BASIS

The Chief Compliance Officer acts as the Head Office unit of the Group in the matter of management of compliance risks, and it is his responsibility to verify the implementation of the policy of the Group in the matter of compliance by the banking subsidiary, providing guidance and assistance to the subsidiary company in developing systems, the writing of procedures, training of staff and integration of the instructions.

CONDUCT RISK MANAGEMENT

Conduct risk is cross-organization risk, which extracts its normative framework from a long list of laws and regulations and which is based on fundamental values such as fairness, transparency, in the way the Bank conducts with different stakeholders.

The Group implemented the values of fairness and transparency in its activity with its customers, strengthening these values in its daily operations. In general, the Bank Group is requested to ensure that the proposals that are given to customers are customized to their needs and the services provided to the customer are without discrimination of any kind. Failing to meet the conduct risk exposes the group to different risks, among others, compliance risks, legal risk, reputation risk etc. The Bank implemented a policy regarding proper business conduct (conduct risk) as part of the compliance policy.

MONEY LAUNDERING AND TERROR FINANCING PROHIBITION RISK

GENERAL

- Money laundering and terrorism financing prohibition risk (hereinafter: “money laundering/AML“) is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the realization of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk.
- The banking sector is subject to directives concerning the prevention of money laundering and the financing of terrorism which include inter alia the Money Laundering Prohibition Act, the Financing of Terrorism Prohibition Act, the Money Laundering Prohibition Order, the Financing of Terrorism Prohibition Regulations, Proper Conduct of Banking Business Directive 411 and various circulars.

POLICY

The Group has an orderly policy regarding money-laundering and terrorism financing prohibition, which is approved once a year by the Board of Directors of the Bank. In addition to the required current updates, this year a new chapter was added to the compliance policy of the Bank in respect of international sanctions.

RISK APETITE

- The Bank operates "zero tolerance" policy concerning money laundering risks including cross border tax offences, which in its framework all the Bank's managers and employees, without any exception, including all the subsidiaries in the Group, must comply to the Law's directives and regulations applicable to the Bank and to all the Bank's procedures derived from these directives.
- The Bank group applies stringent policy to assure precise application of the law and suitable acquaintance with the customer with whom the Bank conduct its business, including understanding of his business conducted with the Bank or by the Bank, imperative for money laundering prevention and terror finance by the Bank and for the proper management of the Bank.
- The policy in the area of money laundering prevention includes clear definition of prohibitions in relation to activity with entities and countries against which there are restrictions.

EXPOSURE MANAGEMENT

- A unit for prevention of money laundering and finance of terrorism operates within the Bank, and is responsible for the application of the law directives in this subject and their implementation. The unit is part of the compliance unit and is subordinated to the chief compliance officer, which also serves as the officer in charge of Anti Money Laundering. The compliance department is subordinated to the Chief Risk Officer.
- The roles of the person in charge of AML and finance of terror include, inter alia, policy and procedures compilation and updates in accordance with changes in legislation and the provisions of the law, development and conduct of controls to ensure that the Bank is implementing the law and reports the necessary reports, sending reports on unusual transactions to the Money Laundering Prohibition Authority, and examining the application of the Bank's policy at all the auxiliary

corporations in the Group and conducting and/or reviewing the existence of instructional sessions to money laundering prohibition officers and all employees, which increase the awareness to the subject.

- In order to apply the law and assiduously assimilate its provisions, the Bank has appointed compliance supervisors who also serve as money laundering prohibition supervisors at the branches responsible for current money laundering prohibition and terrorism financing prohibition activity in accordance with policy and procedures, and who are professionally subordinate to the Compliance officer.
- The Bank inspects data quality and currently adopts measures to improve it by means of control reports. The Bank also invests considerable resources in developing and upgrading computerized control systems, and allocates personnel to the unit in order to increase the efficiency of the controls.
- The Legal Department monitors legislative changes and ensures that they are sent to the Money Laundering Prohibition Officer, and provides legal support as requested by this official for the purpose of carrying out his duties with respect to the activity of the unit and the Bank as a whole.
- In the framework of the semi-annual discussion of the forum for follow-up on operational risks, a discussion is held on technological developments, such as, use of the internet, cellular phones, rechargeable debit card, etc., which may assist customers in performing money laundering and/ or finance of terror, in order to formulate and examine proper defense measures, for coping with these developments and the exposures resulting from them.
- Following the war between Russia and the Ukraine, the sanctions that were implied on Russia by Opek, The European Union and other countries, were intensified. Israel did not imply sanctions on Russia, however, the Bank is obligated to conform with extensive parts of the requirements of these bodies, by virtue of different contracts and agreements, mainly in activity with correspondents. Opposite to this risk, the preparedness of the Bank in that matter includes detailed instructions in procedures to the branches' layout and the headquarters of the business divisions, and the determination of authorities to approve such activity in the compliance department, which is the coordinator of the knowledge in the matter, including the learning from publications, conferences and targeted consultation.

EXPOSURE REPORTING

- Once a quarter, in the quarterly risk document, the Money Laundering Prohibition Officer reports to the Management of the Bank on his activity during the past quarter. The detailed report includes reference to the risk centers which he has identified and methods for dealing with them.
- At least once a year, the Money Laundering Prohibition Officer submits a detailed report to Management and the Board of Directors of the Bank.
- In addition, the policy prescribed by the Board of Directors defines immediate reports to Management, the Board of Directors and to the Bank of Israel.

GROUP MANAGEMENT OF MONEY LAUNDERING AND TERRORISM FINANCING RISK

The Money Laundering Prohibition Officer, the official responsible for fulfilling the requirements imposed on the Bank by the Money Laundering Prohibition Act, operates as the head office unit of the Group in connection with money laundering and terrorism financing prohibition risks. The Money Laundering Prohibition Officer is responsible for ensuring that Group policy is applied in the area of money laundering and terrorism financing prohibition at the subsidiaries, as required in Proper Conduct of Banking Business Directive 411, by guiding and assisting the subsidiaries in the construction of systems, the compilation of procedures, instructional activities and in assimilating regulations.

CROSS-BORDER RISK MANAGEMENT

The Bank Group operates in different banking fields. Among the customers served by the Bank Group, are also foreign resident customers. On background of increased efforts made by foreign countries to discover funds held by their residents outside their country of residence, and the trend for international cooperation in the combat against tax evasion, the Bank's transactions with such foreign residents, as stated, may increase exposure to compliance risk stemming from cross-border activities as well as to reputation risk.

The Bank has determined a designated policy regarding this issue, work procedures have been instituted, and decision has been taken regarding a series of operational steps for the management and reduction of risk. With respect to accounts being of a high risk from the aspect of cross-border risks, customers showing indications regarding foreign tax residency were identified and marked, and all new customers are required to sign declarations regarding their tax residency and waiver of confidentiality regarding all their accounts.

Income Tax Regulations (Application of a uniform standard for reporting and examining the appropriateness of information regarding financial accounts), 2019, which were published on February 6, 2019, integrate into the Israeli tax laws the commitments accepted by the State of Israel for the adoption of the international standard regarding the exchange of information ("the CRS standard") which was developed by the Organization of Economic Cooperation (OECD), in order to automatically exchange information on annual basis, in order to provide mutual assistance in tax enforcement between countries.

The FATCA rules - compliance with the provisions of the local legislation enacting the rules prescribed by US Law and which are embedded into the bilateral agreement between the United States and Israel. Within the framework of the provisions of this Directive, the Bank conducts internal processes for the identification and documentation of accounts belonging to US residents, including the reporting thereon at each September, in respect of the previous tax year, to the US Tax Authorities. The reporting is made by way of the Israeli Tax Authority, as required by the Directive. In this respect, and in accordance with the legislative rules, since the entry into effect of the Regulations, the Bank allows the opening of a new account on condition of the signing by the customer of a declaration regarding his tax residency.

The CRS rules- The standard was developed by the OECD, the purpose of which is to gather information on the tax residency of the Bank's customers, and reporting on it to the tax authorities of the participating countries, through the Israeli Tax Authority. The standard, which was embedded in local legislation, is implemented by the Bank, that reports, in each September, in respect of the previous tax year, of its customers that declared on foreign tax residency, or those, which their account shows indication for such tax residency.

The QI rules- US tax regulations concerning tax withheld at source on income from American origin, including dividend income and interest payments of American securities. The rules state, *inter alia*, the requirements for identification, documentation, tax withholding and reporting, and are applied to all holders of securities with receipts from American origin, whether they are American or not.

REPUTATION RISK

GENERAL

Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources.

RISK APPETITE

The group has low tolerance to reputation risk, that might have an impact on its stability, including threats deriving from the perception of the Bank. Furthermore, the Bank sees a positive perception as a major asset, therefore it will act to prevent the materialization of the reputation risk that might reach a crisis scenario and will try to minimize the materialization of reputation risks, as much as possible.

POLICY AND EXPOSURE MANAGEMENT

The Bank has a policy for the management of the risk that includes: identifying and monitoring after the risk factors and compilation of prevention activity, early identification of potential reputation events, continuous monitoring of the risk and its management.

EXPOSURE REPORTING

The Bank has a detailed layout of reporting requirement concerning the reputation risk including immediate reports. The reporting layout defines, inter alia, who is responsible to report, its frequency and its recipients.

The Bank's spokesperson is involved in publication of notices and material reports to the Stock Exchange, with emphasis on notifications with a potential threat or an impact on the Bank's reputation, such as profit warning, material appointments, material transactions, etc.

In the quarterly risk document, major matters which concern the reputation risk, are being reported.

MANAGEMENT ON A GROUP BASIS

Subsidiary companies in the Group, including nonbanking subsidiaries, adopt the above stated policy with required modifications. Each subsidiary or marketing brand, is responsible for putting a special emphasis on its core populations. Each subsidiary or marketing brand, has appointed a Reputation Risk Manager, who is responsible for the reputation risk management as prescribed in the policy document. The spokesperson of the Bank serves also as spokesperson for the Group, and accordingly, every material contact with the media regarding the operations of the Group and/or the banks, is reported and coordinated in advance with the spokesperson.

STRATEGY RISK

GENERAL

Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, regulatory, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation.

The Bank divides the strategy risk to three risk groups, the materialization of each, or part thereof, may affect the fulfillment of the strategic vision and goals: Strategic positioning risks, Strategic execution risks and Strategic consequence risks.

POLICY AND EXPOSURE MANAGEMENT

The goals of the strategy risk management policy are:

- To assure the correlation between the Bank's strategic objectives to: annual work plans; the resources that were allocated to these objectives (among others, capital resources as part of the capital planning of the Bank); implementation of strategic decisions.
- The ability to monitor the strategy risk, which allow early identification of the gaps in materialization of strategy planning: erroneous decisions/business plans; inappropriate implementation of strategic decisions; sector, economic, technology and regulatory changes.

Measures for the monitoring, on a quarterly and semi-annually were set. The measures are updated according to developments. Recently, these measures were expanded and updated in order to reflect the risks derived from existing and anticipating strategic moves.

RISK APPETITE

The group has low tolerance to strategic risk, due to the critical impact it might have on the Bank's stability and business achievements. The Group embrace business strategy characterized by high level of cautious and conservativity.
The Group implements control procedures in order to minimize the exposure to exceptional risks.

EXPOSURE REPORTING

The Bank has a detailed layout of reporting requirement concerning the strategy risk along the different lines of defense.
In the framework of the quarterly risk document, major matters in respect of the strategy risk are being reported.

GROUP MANAGEMENT OF STRATEGY RISK

The banking subsidiary adopts the Bank's policy, with emphasis to its unique characteristics, in the process of the strategy planning.

REGULATORY RISK

This risk stems from the trend of increasing regulatory requirements in recent years in Israel and over the world. The said regulatory changes and the implementation of regulatory reforms increase uncertainty and competition in the financial sector and creates risks to the income and equity of the Group, including by way of preventing or imposing restrictions on business activity and loss of income. The changes also require preparation, implementation and integration, which may result in heavy costs and investments (such as investment in computer systems) for the Bank. Furthermore, noncompliance with the provisions of the law and regulations applying to the Bank and to the Group exposes them to sanctions, including monetary sanctions, claims by customers, including class action suits, subjecting the banking corporation and its officers to criminal responsibility, as well as impairment of the public image of the Bank. The regulatory risk is managed by the Bank as part of the legal risk, the compliance risk and the strategy risk.
The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, serves as a guiding line for the activity of all functions at the Bank in the management of compliance risks in general and in complying with all regulatory instructions in particular, outlining principles and basic concepts and establishing the authority and areas of responsibility of the different functions at the Bank and at the Group, for the purpose of forming an appropriate infrastructure for the implementation of the duties applying to the Bank and the Group as regards compliance and their regulation in procedures and processes. The regulatory-legal aspects are supervised and managed by the legal counseling group within the framework of the policy for the management of legal risk, as approved by Management and the Board of Directors. The policy regularizes the manner of identifying, mapping and reducing the legal risk, including by way of the current monitoring of developments in legislation, regulations and Court decisions, providing current legal advice and support on basis of such developments.
From the strategic aspect - the strategic program and the work plan relate to the possible implications mentioned above, and take into consideration the said changes.
For details regarding material regulatory initiatives having an impact on the operations of the Bank in the reported period, see the Chapter "Legislation and regulatory " in the "Corporate Governance - Additional Details" part.

MODEL RISK

GENERAL

Model risk is defined as the potential for negative implications stemming from decisions that had been made based on erroneous model products, or the wrong use made of model products. The model risk may lead to financial loss, erroneous business decisions or damage to the reputation of the Bank.

RISK MANAGEMENT POLICY

The Bank has a model risk management policy (MRM) that details and defines a comprehensive model validation framework, which includes different tools aimed at reducing model risk, preventing incorrect use of the model and preventing model results risks.

RISK APPETITE

The Bank has low tolerance to model risk and to the extent possible, the Bank acts to minimize the model risks, while considering costs as against the reduction of the risk. Tolerance to risk at the Bank is measured in accordance with the methodology for the assessment of model risk, which relates to the origin of the risk, the mutual relations between models, as well as according to the quality of the tools for validation of the models.

DISCUSSION OF RISK FACTORS

The degree of impact of the risk factors was determined in line with the Bank's methodology in the ICAAP process and in the risk document. The methodology takes into account the risk level and any development in the Bank's risk profile vis-à-vis the specified risk appetite and the risk management quality.

Each risk factor appearing in the table was examined, on its own, and on the assumption of non-dependence between one risk factor and other risk factors appearing in the table.

	Risk	Effect	Risk level
1.	**Market risks**	Market risk is the actual or future existence of a risk to a loss or impairment deriving from a change in the economic value of a financial instrument, specific portfolio or group of portfolios and on comprehensive level, due to changes in prices, rates, spreads and other parameters in the markets.	Low-Medium
1.1	**Interest risk**	Interest risk is the risk to losses or to capital stemming from fluctuations in interest rates. Changes in interest rates, affect the earnings of the Bank by changes in net income, and the value of the assets of the Bank, its liabilities and off-balance sheet instruments, due to changes in the present value of future cash flows (or even the cash flows themselves) following changes in interest rates. Interest rate risk to which the Bank is exposed to include: the risk of repricing, yield curve risk, base (spread) risk and option risk. Interest rate risk in the portfolio is the dominant risk to which the Bank is exposed in respect to the effect on the fair value of the assets and liabilities and on the profit.	Low-Medium
1.2	**Inflation risk**	Risk to a loss that could materialize as the result of unexpected changes in the consumer price index.	Low
1.3	**Exchange rate risk**	Exchange rate risk is the actual or future risk to a loss that could materialize as the result of unexpected changes in exchange rates.	Low
1.4	**Share/Option risk**	Share price risk is a risk to a loss as a result of changes in the shares' price or shares' index. Option risk is the actual or future risk to a loss that could materialize as the result of changes in the parameters affecting the value of options, including standard deviation.	Low-Medium
2.	**Liquidity risk**	Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, including a steep decline in value of assets available to the Bank, unexpected withdrawals, unexpected demand for credit and uncertainty regarding the availability of sources.	Low-Medium
3.	**Credit risk**	Credit risk is the risk of borrowers or counterparty will not fulfil their obligations to the Bank. In the framework of the overall credit risk assessment, weighing of all factors affecting the risk level is carried out, amongst them, the volume of exposure, effect of quality of borrowers and collateral and effect of sector concentration, including the risk embedded in the credit to construction and real estate sector, which is raising in Israel in recent years, in light of the increase in the volume of exposures.	Medium
3.1	**Quality of borrowers and collateral**	The actual or future risk of erosion in the value of Group assets, income and equity that could materialize as the result of a decrease in the quality of borrowers against the background of a deterioration in their repayment ability, and/or in the value and quality of the collateral which they provided as security for credit.	Medium
3.2	**Sector concentration**	Actual or future risk of impact to the value of Group assets, income and equity resulting from a high volume of credit granted to borrowers in a certain sector and/or investment in instruments sensitive to the sector. Deterioration in the business activity of such a sector, due to changes in supply or demand, changes in raw material prices, geopolitical developments and regulatory developments may impact the repayment ability and/or value of collateral provided by part of the borrowers in that sector, and may therefore adversely affect the value of the Group's assets and profitability.	Low

	Risk	Effect	Risk level
3.3	**Borrower and borrower group concentration**	Actual or future risk of impact to the value of the Group's assets, income and capital due to deterioration in the position of a large borrower/large group of borrowers relative to the credit portfolio, which could adversely affect the chance of collecting the credit, and therefore also the value of the Group's assets and profitability. The effect of the risk is a function inter alia of the borrower groups' internal composition, the extent to which the companies comprising them are connected from the business or sector-specific aspect, their diversification, and the extent to which problems at one of them will affect the others.	Low
4.	**Operational risk**	Operational risk is risk to a loss due to the impropriety or failure of internal processes, persons (including labor relations) and systems, or due to external events. The definition includes fraud and embezzlement risks, information security risks, cyber and business continuity and legal risks, but does not include strategic risk or reputation risk.	Medium
4.1	**Cyber and data protection risk**	This risk (being part of operating risk) is separately assessed in view of increasing events around the world and in the financial system in particular, and in view of the expanding digital activity. The risk is defined as a potential for the damage stemming from a cyber event, considering the level of likelihood and severity of its implications.	Medium-high
4.2	**Information technology risk**	This risk (being part of operating risk) is separately assessed because the technological environment is complex and variable and dependence on it is increasing. In recent years the risk has intensified in view of the need to increase business and technological flexibility as well as increasing the use of new technologies.	Medium
5.	**Legal risk**	Legal risk is included under operational risk as this is defined in Proper Conduct of Banking Business Directive 350 ("Operational risk management") and includes, but not only, "exposure to fines, penalties or punitive damages as the result of supervisory activity as well as private settlements".	Low-medium
6.	**Reputation risk**	Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources. Reputation risk is materially affected from the materialization of interfacing risks such as operational risk, credit risk, compliance risk, anti-money laundering and finance of terror risks and more, the publication of which might cause the materialization of the reputation risk (for example: theft & embezzlement event, money laundering events, cyber event, high financial loss, etc.).	Low-medium
7.	**Legislative and regulatory risk**	Legislative and regulatory risk is the actual or future existence of a risk to the Group's income and capital that could arise from changes in regulation or legislation which could affect the Group's business activity. The Bank, as a banking corporation, and the companies held by it are subject to numerous regulatory provisions that are reflected in legislation, secondary legislation and the policy of supervisory and enforcement authorities, such as the Supervisor of Banks at the Bank of Israel, the Capital Market and Savings Division at the Ministry of Finance, the Securities Authority, the Antitrust Commission, and statutory bodies in the area of consumer protection. The computerization field is also sensitive to changes in legislation and regulation, in view of the frequent upgrades and modifications that are required in respect of computer systems. Frequent changes and/or innovations in legislation and the authorities' policy occur in these areas. Such changes in legislation and in the policy of the supervisory and enforcement authorities could affect the Group's business activity, and usually require investments and the expenditure of resources in order to adapt activity to these changes. The investments need to be made in systems and in the training of personnel.	Medium

	Risk	Effect	Risk level
8.	**Compliance, money laundering and terrorism financing prohibition risks**	Compliance risk is the risk for a legal or regulatory sanction, a material financial loss or damage to the Bank's image, as a result of failing to comply with the compliance provisions. Compliance risk includes the risk of failure to meet the consumer provisions specified in the Proper Banking Business Conduct Directive 308, the risk of failure to meet the provisions of the Money Laundering and Terrorist Financing Prohibition Law, the risk of failure to comply with the provisions of the Internal Enforcement Plan in securities laws, the risk of failure to comply with the provisions of the Internal Enforcement Plan in competition legislation, the risk of failure to comply with the provisions of privacy protection legislation and the risks arising from activity vis-à-vis foreign residents. This risk also includes conduct risk, which is a cross organization risk that draws its normative outline from a long list of legislation and regulation directives and based on basic values such as fairness and transparency in the manner the Bank operates with different stakeholders. The intensification of the regulation and enforcement of the tax authorities in different countries, in order to locate financial means of their residents held outside the country of residency, may project on the conduct pattern of customers, hence exposing the Bank to compliance risks, reputation risks and cross border risks. Anti money laundering and terror financing risks are risks to criminal responsibility of the corporation, its managers and employees being created, damage to the earnings and capital of the Group, which may be created on the background of significant financial sanctions being imposed and reputation risks, which may be expressed by disengagement with financial bodies around the world and abandon of customers, as a result of not adhering to the law directive in respect of ALM and finance of terror prohibition. The materialization of an offence in respect of ALM and finance of terror prohibition, as well as the involvement of the Bank in tax offences in Israel and around the world, conducted by its customers, may lead to the materialization of reputation risk, operational risks, legal risks, strategy risks and other risks. The effect of compliance risk, ALM and finance of terror risk projects on all the areas of activity of the Bank, including the administrative enforcement and local and international regulation, including the FATCA and CRS.	Medium
9.	**Strategy risk**	Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, regulatory, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation. The strategy risk includes also the competition risk, stemming from the exposure of the Group to competition in Israel in all areas of activities. In its current operations, the Group competes with banking corporations and other financial bodies providing alternative financial products to the products provided by the Group. The competition risk expresses the erosion of profitability and capital on the background of the competitive pressure to reduce fees and spreads. The Bank divides the strategy risk to three risk groups, the materialization of each, or part thereof, may affect the fulfillment of the strategic vision and goals: Strategic positioning risks, Strategic execution risks and Strategic consequence risks.	Medium
10.	**Model risk**	Model risk is defined as the potential for negative implications stemming from decisions that had been made based on erroneous model products, or the wrong use made of model products. The model risk may lead to financial loss, erroneous business decisions or damage to the reputation of the Bank.	Low

The Bank takes specific measures to minimize the risks described above. In addition, a detailed policy was determined for the management of the exposures and risks, that include inter alia, definition of specific risk appetite, limitations on the exposure, different control mechanisms, reporting outlines, etc. Furthermore, also existing is a layout of procedures implemented by the Bank, as well as supporting computer systems.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

GENERAL

The financial statements of the Bank are prepared in accordance with accounting principles and accounting regulations, the main elements of which are detailed in Note 1 to the financial statements.

The financial statements include the results of calculations, assumptions and estimates relating to activities, events and developments that affect the profitability of the Bank. The Bank's Management bases its estimates on subjective assumptions and estimates compiled by employees and external professional entities with proficiency and expertise in the areas in which the estimates are required.

The external professionals and the employees engaged in the supervision, control and preparation of the estimates and assumptions regarding matters that are defined as having a critical effect on the financial results of the Bank do not, to the extent possible, have any involvement and current business relations with the entity or the matter that is the subject of the estimate.

The Management and the Board of Directors of the Bank believe that the estimates and assessments regarding critical accounting policy matters were made in accordance with the best knowledge and judgment of the professional entities engaged in their preparation, and that they were applied in an appropriate manner in the financial statements of the Bank.

The following is a condensed review of the areas in which the Management of the Bank is required to make accounting assessments and estimates regarding matters whose impact on earnings and loss is likely to be critical and material. Changes in assessments and estimates regarding the matters described below, including actual results of an event that may differ from the estimate made in respect of it, could have a material effect on the financial results of the Bank and on the structure of its assets and liabilities (including contingent liabilities).

A. PROVISION FOR CREDIT LOSSES

Since January 1, 2022, the Bank has been implementing the Generally Accepted Accounting Principles for U.S. banks on measuring credit losses arising from financial instruments, as described in Section 326 of the Codification (ASC-326) – Financial Instruments – Credit Losses.

According to the new rules, the purpose of the provision for credit losses is to estimate the expected credit losses through the lifespan of the credit. The process of determining the provision is based on methods that have been developed with the aim of estimating expected losses, while taking into account historical information and reasonable, supportable forward-looking assumptions. These estimates also include qualitative adjustments, including the management's subjective forecasts and estimates that involve a measure of uncertainty, and changes in the estimates or the assessments might have a material effect on the provision for credit losses.

In addition, the Bank performs a quarterly review of the adequacy of the classifications and the overall reasonability of the provision, which includes discretionary elements, assessments and estimates with respect to the inherent risk level in the bank's credit portfolio.

The provision in respect of non-accruing debts in the commercial credit is calculated using the discounted cash flow method and/or based on the collateral value for loans whose collection is conditioned on a collateral. This provision is based on estimating the expected receipts to pay off the debt from a variety of relevant repayment sources, including the borrower's business operations, the collateral the borrower has provided, and the realization value of the guarantees made by the borrower or by third parties. This method requires applying discretion and making estimates that the bank's management believes to be reasonable as of the valuation date, but naturally, it is uncertain that the amounts actually received will be the same as the estimates.

For residential loans, private individuals' credit and commercial credit, which its contractual balance is below NIS 1 million, or commercial credit for which the contractual balance is exceeding NIS 1 million and is not non-accruing credit, the provision for the expected credit losses comprises a quantitative aspect and qualitative adjustments, and is calculated separately for each class of financial assets with similar risk attributes. In commercial credit, the primary method the Bank relies on is a

method based on historical net accounting write off rates (WARM), and in private individuals' credit and residential loans, the Bank applies the probability of default/loss given default (PD/LGD) method.
To determine the qualitative adjustments included in the provision for expected credit losses, the Bank considers the financial assets' characteristics and the data on environmental factors that refer to the bank's specific credit portfolio, such as changes to the scope of credit, changes in the scope of problematic debts, the quality of the controls, the centralization of the credit, and so on. Furthermore, when setting the qualitative adjustments, the Bank also considers the state of the economy and the economic environment, based on current macroeconomic data and macroeconomic forecasts for the period considered reasonable and supported. Within the qualitative adjustments, the Bank examines whether there are other uncertainties that are not reflected in the results received, and, to the extent necessary, it imposes increased provisions for expected credit losses. These estimates reflect uncertainty, and by their nature, they may vary from time to time.
Also, considering the fact that implementing the new instructions, starting on January 1, 2022, required several new and complex models to be built – models that have not yet been tested compared with the actual results and that might call for a future calibration, as well as because of restrictions on the historical information required to establish the models in the optimal manner – the Bank increased the qualitative adjustments used to calculate the provision.

In determining the provision as of December 31, 2022, the Bank increased the provision for credit losses, in light of the current economic uncertainty considering the changes in the macro environment, such as the raise in inflation levels and the interest rate raises, and considering changes in the global economy that stem, inter alia, from the Russia-Ukraine War.
We emphasize that the provision for credit losses depends on a wide variety of uncertain factors. Estimating the provision for credit losses requires Management to apply estimates and assessments that are typically based on economic forecasts, estimates on developments in the markets, and their estimated effects on the credit risk and the actual materialization of credit losses in the future. Using the estimates and assessments requires exercising discretion, and the bank's management believes that they are reasonable as of the date of publication of the financial statements. However, and naturally, it is uncertain that the actual future credit losses from the current credit portfolio will be the same as the determined estimates and evaluations.
The Bank's estimates on provisions to credit losses are forward-looking information, as defined in the Securities Law, 5728-1968, that is based, inter alia, on information, third party publications, and the estimates available to the Bank as of the financial statements' publication date. These estimates are uncertain, and the actual credit losses might differ from the estimates that were made.
As for updates on the generally accepted accounting principles for U.S. banks on the provision for expected credit losses (CECL), that the Bank has been applying since January 1, 2022, see also Note 1.C. to the financial statements.

B. LAWSUITS AND CONTINGENT LIABILITIES

Risk assessment and accounting procedures reflecting lawsuits and contingent liabilities are carried out at the best judgment of the lawyer dealing with the matter, based on his proficiency in and knowledge of the law and court rulings, his experience in legal work, acquaintance with banking activity and, in cases of clear uncertainty, review of the factual basis. The process of risk assessment is monitored by the Head of the Litigation Section in the Legal Department. When large amounts are involved, the process is also reviewed by a committee chaired by the Manager of the Bank's Legal Department.

In order to achieve this objective, the Legal Department acts in several areas:

1. Knowledge of the general law.

   The Legal Department diligently updates itself on current legislation and court rulings, a matter that is reflected in the internal procedures of the Department. Special attention is paid to matters that may have implications for the diverse activities of the Bank, including the drawing of conclusions and recommendations for action following relevant events that have occurred at other banks.

2. The processing of claims and complaints against the Bank.
   Lawsuits in various matters are pending against the Bank (including requests for approval of several of them as class actions), including: capital market, bank-customer relations, lack of representation, etc.

The Legal Department deals with all of the claims against the Bank, by itself and via external lawyers who are assisted and supervised by the Legal Department as needed. A risk assessment is carried in respect of every lawsuit in an amount exceeding Dollar 10,000, and in respect of every legal action (without a minimum amount). A committee headed by the Bank's Chief Legal Counsel periodically reviews the assessment of the risk in complaints and claims whose overall amount exceeds NIS 5 million. Estimates of the Bank's exposure to claims and contingent liabilities, in respect of which a provision has to be made, or where disclosure is required with respect to the extent of exposure inherent in them, are made in cooperation with the relevant professional entities at the Bank. The CEO receives in the case of material claim an immediate report, a monthly report on updates and material changes that have occurred in the claims and complaints filed against the Bank when these exceed a certain amount, as well as a quarterly report on revisions and changes as stated in all of the claims and complaints filed against the Bank.
Regarding the majority of claims and contingent liabilities, estimates exist on the extent of the Bank's risk, and provisions are made accordingly.
As to the disclosure format of legal claims see Note 1.d.(16) to the financial statements.

C. EMPLOYEE RIGHTS

Employees at some companies in the Group, including the Bank, are entitled to certain benefits in the course of their employment, after leaving their employment and on retirement. These benefits include, among other:

- Post retirement and employment defined benefits schemes - Severance compensation, pension, retiree benefits and other.
- Other benefits (for some companies in the Group) - seniority awards and benefits in respect of unutilized sick leave.

Liabilities in respect of such benefits are computed on an actuarial basis. The actuarial calculations are based on a number of parameters, including the probability that all the conditions for payment will be fulfilled - life expectancy, retirement age, employees rate of resignation from the Bank before formal retirement age, the expected rate of increase in salary, and the discount rate. The discount rate is determined on the basis of the return on Israeli government bonds, with the addition of a margin that equals the difference between the rate of return to redemption on US corporate bonds rated "AA" and above and the rates of return to redemption on US government bonds.

The following is a sensitivity analysis of the effect of a change in the principal parameters on the calculation of the actuarial provisions:

	December 31, 2022	
	Increase of 1%	Decrease of 1%
		NIS million
Effect of change in Salary on:		
Actuarial liabilities for pension and severance payments	**62**	**(51)**
Other post-employment and retirement benefits	**1**	**(1)**
Benefit in respect of nonutilized sick leave	**3**	**(3)**
Effect of change in discount rate on:		
Actuarial liabilities for pension and severance payments	**(49)**	**60**
Other post-employment and retirement benefits	**(32)**	**42**
Benefit in respect of nonutilized sick leave	**(2)**	**3**
Staff long service awards	**(1)**	**1**
Effect of change in rate of employees leaving on:		
Actuarial liabilities for pension and severance payments	**112**	**(92)**
Other post-employment and retirement benefits	**(4)**	**2**
Benefit in respect of nonutilized sick leave	**(4)**	**3**
Staff long service awards	**(2)**	**1**

The effect of the change in the principal parameters on the post-retirement and employment defined benefits schemes - severance compensation, pension, benefits to retirees and other, are recognized in other comprehensive profit.

The effect of the change in the principal parameters on benefits - seniority awards and benefits in respect of unutilized sick leave, are recognized in profit and loss.

The Opinion of the actuary is available for review on the MAGNA website of the Securities Authority, and on the MAYA website of the Tel Aviv Stock Exchange.

D. ASSESSMENT OF THE FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Bank conducts large-scale activity in derivative financial instruments, which are presented in the financial statements on the basis of fair value as distinct from value on the basis of the accrual principle.

Since 2012, the Bank has applied ASC 820 principles for the measurement of the fair value of derivative financial instruments. ASC 820 defines fair value as the price that would have been obtained from the sale of an asset or that would have been paid in order to discharge a liability in a transaction between a voluntary seller and a voluntary buyer at the date of measurement. For the purpose of fair value assessment, the accounting standard requires the maximum possible use of observed data and the minimum possible use of unobserved data. Observed data represent market information data that are obtained from independent sources, while unobserved data reflect the banking corporation's assumptions.

The use of these data types create the following scale of fair value:

- Level 1 data - prices quoted from an active market.
- Level 2 data - prices derived from estimation models in which the significant data are observed in the market or are supported by observed market data.
- Level 3 data - prices derived from estimation models in which one or more of the data are unobserved.

Derivative financial instruments that have a main market were assessed on the basis of market value as set in the main market and in the absence of a main market, on the basis of the market price quoted in the most effective market. Derivative financial instruments that are not traded were estimated on the basis of models which the Bank uses in its current activity and which take into account the risks inherent in the derivative financial instrument (such as market risk and credit risk). Calculations of the fair value of derivative financial instruments in respect of their foreign-currency component are based on data prevailing in the international money markets and in the local market, and in respect of the local currency component, on unlinked interest rates and CPI-linked interest rates, taking into account the market prices, liquidity and tradability in the local market for the type of instrument in question and the period of the transaction. Interest rates under ASC 820 are uniform, whether the value of the instruments constitutes an asset at the Bank or if it constitutes a liability. (There is no spread between the buy/sell interest rates.) The credit risk implied in derivative financial instruments is expressed by the fair value by the inclusion of a risk premium in the calculation of the value.

A risk premium is included in the calculation of all transactions. In transactions whose fair value constitutes an asset, the credit risk premium of the counter-party to the transaction is included; and in transactions whose fair value constitutes a liability, the Bank's risk premium is included.

The credit risk premium of the local banks and foreign banks was accepted from external entities which rely on debt instruments and credit derivatives that are traded on an active market.

As for the rest of the customers, the risk premium was determined on the basis of an internal model for grading the quality of the customers and their credit risk.

The fair value of options is for the most part based on a Black and Scholes model, and is affected by the volatility implied in exchange rates, the interest rate and the indexes relevant to the option which the Bank purchased or wrote. Foreign currency-shekel exchange rate volatility data and foreign currency-foreign currency exchange rate volatility data are determined by an external company that specializes in the revaluation of options on the basis of data derived from the money markets in Israel and abroad. With respect to complex derivative financial instruments that do not have a tradable market, fair value quotations are usually obtained from entities abroad, and their reasonability is examined by the Bank's dealing rooms.

For additional details regarding fair value of derivative financial instruments, see Notes 27(a), 27(b) and 32B.

E. FAIR VALUE OF SECURITIES

The Bank's activity in not for trading shares which have available fair value, bonds in the portfolio available for sale and in the securities portfolio for trading is measured in the balance sheet on the basis of their fair value.

See Note 1.d.(8) and Note 1.d.(9) to the financial statements regarding the determination of fair value of securities and other than temporary impairment.

Determination of the fair value of the foreign-currency bond nostro portfolio

The fair value is determined in the middle office of the financial department which is part of the resources division of the Bank. In its pricing of Eurobonds and MBS bonds, the Bank relies on a quotation from an independent external source that provides quotations to numerous large financial institutions worldwide.

The Eurobonds portfolio

The external quotation supplier provides the Bank with daily data on credit margins with respect to all the securities existing in the portfolio. The middle office carries out a reasonability test of the credit margins, by such means as examining the reasonability of a quotation from the Bloomberg system with respect to transactions that were conducted in an amount of securities approximating to the Bank's total investment in a security, examining the correlation with the margins inherent in relevant credit default swaps (CDS), and examining the reasonability with respect to the same issuer's bonds with redemption dates approximating to the redemption date of the held bond. In cases where no such indications exist, a quotation is requested from an external broker.

Sensitivity analysis

According to the Bank's calculations, an increase (decrease) of 0.05% in the interest margin deriving from the bond issuers' credit risk, with respect to the Bank's foreign-currency portfolio, which is based on quotations obtained from an external price supplier, will have the effect of reducing (increasing) the bonds' revaluation by NIS 7 million.

As regards securities whose fair value is determined on the basis of stock exchange prices, these do not necessarily reflect the price obtained from the sale of securities at large amounts.

For additional details regarding fair value of securities, See Notes 12 and 32B.

CONTROLS AND PROCEDURES

ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

In accordance with the Supervisor of Banks' directives for reporting to the public and the guidelines of Proper Conduct of Banking Business Regulation 309 that was issued in September 2008, the Bank has maintained controls and procedures regarding disclosure, and has deployed an internal control network for financial reporting.

The directives, which concern Management's responsibility on the internal control of financial reporting and the external auditor's statement of opinion regarding the audit of the internal control of financial reporting, were compiled in accordance with the provisions of Sections 302 and 404 of the law known as the Sarbanes-Oxley Act of 2002 that was enacted in the USA, and directives and guidelines that were determined in the USA, including those determined by the PCAOB.

Enclosed with the financial statements are report of Management and the Board of Directors in respect of internal control over financial reporting as well as declarations by the CEO of the Bank and the Chief Accountant, each one separately, concerning the assessment of controls and procedures in the matter of disclosure.

The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for December 31, 2022 the effectiveness of the controls and procedures in the matter of disclosure by the Bank. On the basis of this assessment, the CEO of the Bank and the Chief Accountant concluded that as at the end of this report period, the controls and procedures in the matter of disclosure by the Bank were effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the report in accordance with the Supervisor of Banks' directives for reporting to the public, and at the time determined in those directives.

During the fourth quarter of 2022, no change occurred in the Bank's internal control over financial reporting which exerted a material effect, or which can reasonably be expected to exert a material effect on the Bank's internal control over financial reporting.

Tel Aviv, March 21, 2023

Ron Levkovich
Chairman of the Board

Smadar Barber-Zadik
CEO

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 2022 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure[1] and internal control of financial reporting[1]. furthermore:
   - A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   - B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   - C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   - D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   - A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   - B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Tel-Aviv, March 21, 2023

Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 2022 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure(1) and internal control of financial reporting(1). furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Tel-Aviv, March 21, 2023

Nachman Nitzan
Executive Vice President,
Chief Accountant

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT ON THE INTERNAL CONTROL OF FINANCIAL REPORTING

The Board of Directors and Management of the First International Bank of Israel Ltd. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of confidence to the Board of Directors and Management with regard to the adequate preparation and presentation of the financial reports, which are published in accordance with generally acceptance accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if we determine that these systems are effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial reports.

The Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control of financial reporting as at December 31, 2022, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on the assessment, the Management believes that as at December 31, 2022, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as at December 31, 2022 was audited by the Bank's external auditors, Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report .The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control of financial reporting as at December 31, 2022.

Ron Levkovich
Chairman of the Board

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, March 21, 2023

AUDITED ANNUAL FINANCIAL STATMENTS

Somekh Chaikin
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REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD. IN ACCORDANCE WITH THE PUBLIC REPORTING DIRECTIVES OF THE SUPERVISOR OF BANKS REGARDING INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the internal control over financial reporting of The First International Bank of Israel Ltd. and subsidiaries (hereinafter together "the Bank") as at December 31, 2022, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 1992"). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States regarding audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The internal control over financial reporting of a bank includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets (including disposal thereof); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks, and that money receipts and expenditures of the Bank are being made only in accordance with the authorizations of the Bank's Management and Directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including disposal) of the Bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as at December 31, 2022, based on criteria established in Internal Control - Integrated Framework issued by COSO (COSO 1992).

We also have audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the balance sheets - of the Bank and consolidated - as at December 31, 2022 and 2021 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows - of the Bank and consolidated - for each of the three years in the period ended December 31, 2022, and our report, dated March 21, 2023, expressed an unqualified opinion on those financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 21, 2023

Somekh Chaikin
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REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD. - ANNUAL FINANCIAL STATEMENTS

We have audited the attached balance sheets of The First International Bank of Israel Ltd. ("the Bank") as at December 31, 2022 and 2021 and the consolidated balance sheets as at the same dates and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows - of the Bank and consolidated - for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the Bank's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973 and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2022 and 2021, and the results of operations, the changes in equity and cash flows - of the Bank and consolidated - for each of the three years in the period ended December 31, 2022, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

We have also audited, in accordance with standards prescribed by the Public Company Accounting Oversight Board (PCAOB) in the United States regarding audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control over financial reporting of the Bank as at December 31, 2022, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report, dated March 21, 2023, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Key audit matters

The key audit matters described hereunder are matters that were communicated or were required to be communicated to the Bank's Board of Directors and which, according to our professional judgement, were very material to the current period audit of the consolidated financial statements. These matters include, inter alia, any matter that: (1) Relates to accounts or disclosures that are material to the financial statements; and (2) Involved especially challenging, subjective, or complex auditor judgment. A response to these matters is provided in the framework of our audit and the preparation of our opinion on the consolidated financial statements as a whole. Communication of the matters indicated hereunder does not change our opinion on the consolidated financial statements as a whole and does not constitute a separate opinion on these matters or on the accounts or disclosures to which they relate.

Allowance for credit losses

As described in Notes 1, 13 and 29 to the financial statements, the balance of the allowance for credit losses in respect of the credit to the public on the balance sheet and the off-balance sheet credit to the public is

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NIS 1,917 million and includes a specific allowance and collective allowance in respect of the risk of the credit to the public.

In the process of estimating the allowance for credit losses, the Bank estimates the loss inherent in the credit portfolio. The process of estimating the loss is based on significant estimates that involve uncertainty and on subjective assessments at both the stage of classifying the debts and also at the stage of measuring the allowance for credit losses.

As from January 1, 2022 the Bank applies US generally accepted accounting principles on current expected credit losses (CECL) (ASC 326). In the calculation of the collective allowance, an estimate of the lifetime expected credit losses is prepared according to a methodology and models that are based on a rating of the risk (such as the probability of default and loss given historical default and loss rates) which in their framework an estimate was made of the expected loss given a default event. The models are based on, inter alia, historical data and other adjustments for forecasting the expected credit losses.

The classification of the customer's debt as unimpaired or impaired also affects the amount of the allowance for credit losses.

Furthermore, according to its policy the Bank includes a specific allowance for credit losses for certain debts on the basis of assessments regarding collection from that borrower.

The principal estimates that are the basis for calculating the allowance for credit losses:

- Determining the estimates in the models used by the Bank such as the methodology, assumptions and data, and determining the other adjustments involves exercising significant judgement when choosing and preparing them.
- At the time of identifying and classifying the debts, judgement is exercised for detecting impaired debts on the basis of defined criteria that may indicate that the debt has become impaired, an estimate of the possible or existing damage to the borrowers' initial source of repayment or the existence of expected cash flows of the borrower for repaying the debt in a full and timely manner, and an assessment of other financial data of the borrower that can indicate the existence of weaknesses or potential weaknesses in the payment capacity of the borrower. Classification of the debt as problematic will, as aforesaid, affect the amount of the allowance in respect thereto.
- In the calculation of the specific allowance, judgement is exercised regarding the amount expected to be received from the borrower, such as determining the future cash flows for debt service that are expected from the borrower's activity and from realizing collateral and guarantees.

The estimates that are the basis for calculating the allowance for credit losses were identified by us as a key audit matter. A change in these estimates or assessments might have a significant impact on the allowance for credit losses presented in the Bank's financial statements.

An audit of the allowance for credit losses requires judgement of the auditor as well as knowledge and experience for examining reasonableness of the use of the models, calculations and adjustments that were used by management when determining adequacy of the classification of the debts and estimating the allowance for credit losses.

The procedures that were performed for addressing the key audit matter

The following are the main procedures we performed for addressing this key audit matter in the framework of our audit:

We examined the work processes for calculating the allowance for credit losses and the design and operating effectiveness of controls over financial reporting that are related to measurement of the allowance, including controls related to the following matters:

- Examination of adequacy of the methodology used for determining the allowance for credit losses;
- Adequacy of the basic data used to calculate the allowance for credit losses;
- Detection of debts with potential characteristics of problematic debts, according to criteria defined by the Bank;

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- Classification of debts according to the directives of the Supervisor of Banks;
- Analysis of the allowance's reasonableness as a whole.

We performed substantive procedures for testing the allowance for credit losses on the basis of representations we received. These procedures included, inter alia:

- Reviewing the methodology for determining the allowance and checking that it is consistent with the accounting principles that apply to the Bank;
- Examining a sample of calculations made by the Bank for determining adequacy of use of the various models;
- Examining adequacy of the classification and estimate of the allowance for a sample of debts;
- Examining adequacy of the allowance for credit losses as a whole.

The accounting firm of Somekh Chaikin began serving as the Bank's auditor in 1972.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 21, 2023

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

		Consolidated			The Bank		
	Note	2022	2021	2020	2022	2021	2020
Interest Income	2	**5,161**	3,150	2,878	**4,833**	2,907	2,647
Interest Expenses	2	**1,358**	356	241	**1,339**	358	253
Interest Income, net	2	**3,803**	2,794	2,637	**3,494**	2,549	2,394
Expenses (income) from credit losses	13,29	**123**	(216)	464	**118**	(213)	443
Net Interest Income after expenses from credit losses		**3,680**	3,010	2,173	**3,376**	2,762	1,951
Non-Interest Income							
Non-Interest Financing income	3	**113**	303	148	**111**	301	148
Fees	4A,4B	**1,489**	1,444	1,371	**1,331**	1,285	1,234
Other income	5	**9**	9	4	**66**	49	45
Total non-Interest income		**1,611**	1,756	1,523	**1,508**	1,635	1,427
Operating and other expenses							
Salaries and related expenses	6	**1,680**	1,601	1,532	**1,564**	1,491	1,429
Maintenance and depreciation of premises and equipment		**332**	340	344	**306**	313	316
Amortizations and impairment of intangible assets	17	**113**	105	96	**111**	103	94
Other expenses	7	**630**	606	597	**604**	584	570
Total operating and other expenses		**2,755**	2,652	2,569	**2,585**	2,491	2,409
Profit before taxes		**2,536**	2,114	1,127	**2,299**	1,906	969
Provision for taxes on profit	8	**884**	728	368	**801**	656	315
Profit after taxes		**1,652**	1,386	759	**1,498**	1,250	654
The bank's share in profit of equity-basis investee, after taxes	15	**74**	69	29	**169**	155	96
Net profit:							
Before attribution to non-controlling interests		**1,726**	1,455	788	**1,667**	1,405	750
Attributed to non-controlling interests		**(59)**	(50)	(38)	**-**	-	-
Attributed to shareholders of the Bank		**1,667**	1,405	750	**1,667**	1,405	750

Consolidated and The Bank	**Note**	**2022**	**2021**	**2020**
Primary profit per share attributed to the shareholders of the Bank	9			NIS
Net profit per share of NIS 0.05 par value		**16.62**	14.00	7.48

The notes to the financial statements are an integral part thereof.

Ron Levkovich
Chairman of the Board

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, March 21, 2023

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31 (1)

(NIS million)

	Consolidated		
	2022	**2021**	**2020**
Net profit before attribution to non-controlling interests	**1,726**	1,455	788
Net profit attributed to non-controlling interests	**(59)**	(50)	(38)
Net profit attributed to the shareholders of the Bank	**1,667**	1,405	750
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale bonds to fair value, net	**(441)**	27	(4)
Adjustments of liabilities in respect of employee benefits(2)	**235**	(24)	(74)
Other comprehensive income (loss) before taxes	**(206)**	3	(78)
Related tax effect	**71**	(1)	26
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(135)**	2	(52)
Less other comprehensive loss attributed to non-controlling interests	**(13)**	-	-
Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes	**(122)**	2	(52)
Comprehensive income before attribution to non-controlling interests	**1,591**	1,457	736
Comprehensive income attributed to non-controlling interests	**(46)**	(50)	(38)
Comprehensive income attributed to the shareholders of the Bank	**1,545**	1,407	698

(1) See Note 10.

(2) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

The notes to the financial statements are an integral part thereof.

BALANCE SHEET AS AT DECEMBER 31

(NIS million)

		Consolidated		The Bank	
	Note	2022	2021	2022	2021
Assets					
Cash and deposits with banks	11	**57,130**	57,370	**56,403**	56,601
Securities(4)	12, 26	**16,010**	15,091	**15,215**	14,348
Securities which were borrowed		**12**	845	**12**	845
Credit to the public	13, 29	**117,156**	102,240	**111,019**	96,599
Provision for Credit losses		**(1,195)**	(1,076)	**(1,115)**	(1,010)
Credit to the public, net		**115,961**	101,164	**109,904**	95,589
Credit to the government	14	**866**	811	**158**	48
Investment in equity-basis investees	15	**687**	713	**1,403**	1,351
Premises and equipment	16	**902**	931	**879**	906
Intangible assets	17	**317**	300	**311**	294
Assets in respect of derivative instruments	27A, 27B	**2,825**	1,709	**2,825**	1,712
Other assets(2)	18	**1,245**	1,536	**1,166**	1,460
Total assets		**195,955**	180,470	**188,276**	173,154
Liabilities and Shareholders' Equity					
Deposits from the public	19	**168,269**	153,447	**161,540**	147,012
Deposits from banks	20	**4,821**	5,144	**7,223**	7,578
Deposits from the Government		**237**	960	**237**	960
Bonds and subordinated capital notes	21	**4,749**	3,356	**2,365**	962
Liabilities in respect of derivative instruments	27A, 27B	**2,322**	2,038	**2,332**	2,038
Other liabilities(1)(3)	22	**4,522**	5,088	**4,020**	4,601
Total liabilities		**184,920**	170,033	**177,717**	163,151
Capital attributed to the shareholders of the Bank		**10,559**	10,003	**10,559**	10,003
Non-controlling interests		**476**	434	**-**	-
Total equity		**11,035**	10,437	**10,559**	10,003
Total liabilities and shareholders' equity		**195,955**	180,470	**188,276**	173,154

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 117 million and NIS 79 million (consolidated) and NIS 112 million and NIS 76 million (the Bank) as of December 31, 2022 and 2021, respectively.

(2) Of which: other assets measured at fair value in the amount of NIS 26 million consolidated and the Bank (31.12.21 - NIS 333 million consolidated and the Bank).

(3) Of which: other liabilities measured at fair value in the amount of NIS 26 million consolidated and the Bank (31.12.21 - NIS 641 million consolidated and the Bank).

(4) Regarding amounts measured at fair value, see note 32B.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	Share capital and premium (1)	Accumulated other comprehensive income (loss)	Retained earnings(2)	Total share-holders' equity	Non-controlling interests	Total equity
Balance as at January 1, 2020	927	(131)	7,772	8,568	356	8,924
Changes during 2020 -						
Net profit for the year	-	-	750	750	38	788
Dividend	-	-	(125)	(125)	-	(125)
Other comprehensive loss, after tax effect	-	(52)	-	(52)	-	(52)
Balance as at December 31, 2020	927	(183)	8,397	9,141	394	9,535
Changes during 2021 -						
Net profit for the year	-	-	1,405	1,405	50	1,455
Dividend	-	-	(545)	(545)	(10)	(555)
Other comprehensive income, after tax effect	-	2	-	2	-	2
Balance as at December 31, 2021	927	(181)	9,257	10,003	434	10,437
Adjustment of the opening balance, net of tax, due to the effect of initial implementation*	-	-	(44)	(44)	(4)	(48)
Adjusted balance at January 1, 2022, following initial implementation	927	(181)	9,213	9,959	430	10,389
Changes during 2022 -						
Net profit for the year	**-**	**-**	**1,667**	**1,667**	**59**	**1,726**
Dividend	**-**	**-**	**(945)**	**(945)**	**-**	**(945)**
Other comprehensive loss, after tax effect	**-**	**(122)**	**-**	**(122)**	**(13)**	**(135)**
Balance as at December 31, 2022	**927**	**(303)**	**9,935**	**10,559**	**476**	**11,035**

* Cumulative effect of the initial implementation of US accounting principles in the matter of financial instruments - credit losses (ASC-326). For details, see Note 1.c below.

(1) Including share premium of NIS 313 million (as from 1992 onwards).
(2) Including an amount of NIS 2,391 million which cannot be distributed as dividend - see note 24A.B.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	Consolidated			The Bank		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Cash flows from operating activities:						
Net profit for the year	**1,726**	1,455	788	**1,667**	1,405	750
Adjustments to reconcile cash provided by operating activities:						
The Bank's share in profit of equity-basis investee	**(74)**	(69)	(29)	**(169)**	(155)	(96)
Depreciation of premises and equipment	**65**	66	71	**62**	63	66
Amortization of intangible assets	**113**	105	96	**111**	103	94
Gain on sale of premises and equipment	**(8)**	(7)	-	**(8)**	(2)	-
Expenses (income) from credit losses	**123**	(216)	464	**118**	(213)	443
Loss (gain) from sale of available for sale bonds and not for trading shares and provision for impairment of available for sale bonds and not for trading shares	**46**	(89)	(20)	**47**	(86)	(20)
Realized and non-realized gain from adjustment to fair value of trading securities	**(1)**	-	(1)	**(1)**	-	(1)
Realized and non-realized loss (gain) from adjustment to fair value of not for trading shares	**79**	(125)	11	**79**	(125)	11
Deferred taxes, net	**(60)**	63	(144)	**(56)**	61	(144)
Defined benefit of pension and severance pay plans	**61**	81	68	**56**	77	62
Adjustments of exchange rate differences	**1,408**	(489)	(794)	**1,406**	(490)	(794)
Dividend received from equity-basis investee	**118**	-	-	**118**	10	-
Net change in current assets:						
Trading securities	**207**	(25)	(100)	**207**	(25)	(100)
Other assets	**309**	(155)	(207)	**313**	(159)	(205)
Assets in respect of derivative instruments	**(826)**	318	(908)	**(823)**	322	(910)
Net change in current liabilities:						
Other liabilities	**(271)**	(1,562)	316	**(314)**	(1,373)	352
Liabilities in respect of derivative instruments	**284**	(276)	1,067	**294**	(276)	1,067
Accumulation differences included in investing and financing activities	**131**	(176)	(53)	**(46)**	31	(37)
Net cash from operating activity	**3,430**	(1,101)	625	**3,061**	(832)	538
Cash flows for investing activity						
Change in Deposits with banks	**(331)**	72	(854)	**(350)**	(123)	(759)
Change in Securities borrowed	**833**	(834)	(2)	**833**	(834)	(2)
Change in Credit to the public	**(11,872)**	(7,583)	(3,902)	**(11,389)**	(7,176)	(3,773)
Change in Credit to the government	**(52)**	(155)	378	**(107)**	(13)	374
Purchase of available for sale bonds and not for trading shares	**(6,481)**	(6,003)	(8,210)	**(6,276)**	(5,636)	(7,746)
Proceeds from redemption of bonds held to maturity	**359**	207	236	**357**	207	236
Proceeds from sale of available for sale bonds and not for trading shares	**1,834**	2,123	3,220	**1,752**	1,645	3,131
Redemption of available for sale bonds	**1,464**	1,459	2,620	**1,451**	1,459	2,615
Acquisition of premises and equipment	**(41)**	(39)	(40)	**(40)**	(36)	(38)
Proceeds from sale of premises, equipment and other assets	**12**	14	-	**12**	5	-
Investment in intangible assets	**(130)**	(133)	(120)	**(128)**	(133)	(120)
Proceeds from liquidation of a subsidiary	**-**	-	-	**-**	-	178
Cash flows for investing activity	**(14,405)**	(10,872)	(6,674)	**(13,885)**	(10,635)	(5,904)

The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONT'D)
(NIS million)

	Consolidated			The Bank		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Cash flows from financing activity						
Change in Deposits from the public	**10,386**	11,158	23,641	**10,178**	10,963	22,689
Change in Deposits from banks	**(416)**	2,315	1,914	**(456)**	2,108	2,930
Change in Deposits from the government	**(192)**	(34)	(540)	**(193)**	(34)	(540)
Proceeds from the issue of bonds and subordinate debt notes	**1,669**	500	1,458	**1,405**	-	300
Redemption of bonds and subordinate debt notes	**(465)**	(1,588)	(701)	**(34)**	(1,141)	(254)
Dividend paid to shareholders	**(945)**	(545)	(125)	**(945)**	(545)	(125)
Dividend paid to non-controlling shareholders in consolidated subsidiary	**-**	(10)	-	**-**	-	-
Net cash from financing activity	**10,037**	11,796	25,647	**9,955**	11,351	25,000
Increase (decrease) in cash	**(938)**	(177)	19,598	**(869)**	(116)	19,634
Cash balances at beginning of year	**55,992**	56,352	36,934	**54,815**	55,095	35,623
Effect of changes in exchange rates on cash balances	**369**	(183)	(180)	**323**	(164)	(162)
Cash balances at end of year	**55,423**	55,992	56,352	**54,269**	54,815	55,095
Interest, dividend and taxes paid and/or received:						
Interest received	**4,674**	3,269	3,203	**4,305**	2,991	2,942
Interest paid	**(907)**	(433)	(540)	**(808)**	(351)	(470)
Dividends received	**21**	43	20	**21**	43	20
Income tax paid	**(813)**	(771)	(542)	**(718)**	(687)	(467)
Income tax received	**44**	54	61	**39**	50	60

The notes to the financial statements are an integral part thereof.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. GENERAL

(1) The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The consolidated financial statements as of December 31, 2022 include those of the Bank, of its consolidated companies and of an equity basis investee (hereinafter - "the Group").

The notes to the financial statements relate to the financial statements of the Bank and to the consolidated financial statements of the Bank and its consolidated subsidiaries, unless the note specifically states that it relates to the Bank alone or to the consolidated statements alone.

The Bank is a direct subsidiary of FIBI Holdings Ltd. (hereinafter - "Fibi Holdings"), which is controlled by Binohon Ltd., Dolphin Energies Ltd. (controlled by Messrs. Barry Lieberman, Cassy Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia) and Instanz No. 2 Ltd. (controlled by Messrs. Michael and Helen Abeles from Australia). All the above controlling shareholders are parties to a voting and cooperation agreement.

The financial statements were approved for publication by the Board of Directors on March 21, 2023.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

(2) **Definitions**

In these financial statements:

International financial reporting standards ("IFRS") - standards and interpretations adopted by the International Financial Accounting Standards Board ("IASB"), which include international financial reporting standards ("IFRS") and international accounting standards ("IAS") as well as interpretations of these standards proclaimed by the Interpretation of International Financial Reporting Standards Committee ("IFRIC"), or interpretations proclaimed by the Permanent Interpretation Committee ("SIC"), respectively.

Accepted accounting principles by US banks - Accounting principles, which US banks traded in the US are required to apply. These principles are being determined by the supervisory authorities in the US, by the US Securities and Exchange Commission, by the US Financial Accounting Standards Board ("FASB") and other US entities, and are applied according to the hierarchy determined by US Accounting Standard FAS 168 (ASC 105-10), the codification of accounting standards by the US FASB and the hierarchy of accepted accounting principles. Furthermore, in accordance with a decision of the Supervisor of Banks, despite the hierarchy determined in FAS 168, it has been clarified that any position made public by the bank supervisory authorities in the US or by teams of the bank supervisory authorities in the US regarding the mode of application of generally accepted accounting principles in the US, is considered an accepted accounting principle by banks in the US.

Consolidated subsidiaries - Companies the financial statements of which have been, directly or indirectly, consolidated with those of the Bank.

Equity basis investees - Companies, excluding consolidated subsidiaries and including partnerships or joint ventures, the investment of the Bank in which is accounted for in the financial statements, directly or indirectly, on equity basis.

Investee companies - Consolidated companies or equity-based investees.

Functional currency - The currency prevailing in the principal economic environment in which the Bank operates; generally, the currency of the environment in which the Bank generates and expends most of its cash.

Stated currency - The currency in which the financial statements are stated.

Related parties - In terms of Section 80 of the public reporting instructions.

Interested parties - In terms of Section 80 of the public reporting instructions.

CPI or Index - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

Adjusted amount - An amount in nominal historical terms as adjusted on the basis of the CPI for December 2003, in accordance with guidelines prescribed in Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.
Financial reporting in adjusted terms - Financial reporting in adjusted values on the basis of changes in the general purchasing power of the Israeli currency, in accordance with guidelines prescribed by Opinions of the Institute of Certified Public Accountants in Israel.
Reported amount - An adjusted amount on the transition date (December 31, 2003), together with amounts in nominal historical terms added to it subsequently to the transition date, and less amounts deducted subsequently to that date.
Cost - Cost in reported amount.

B. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(1) Reporting principles

The financial statements of the Bank are prepared in accordance with Israeli accepted accounting principles (Israeli GAAP) and in accordance with the public reporting instructions and guidelines of the Supervisor of Banks.
In most matters, these directives are based on US generally accepted accounting principles. In other matters, which are less material, the directives are based on international financial reporting standards (IFRS) and on accepted accounting principles in Israel (Israeli GAAP). Where the international financial reporting standards (IFRS) allow several alternatives, or do not include specific reference to certain situations, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

(2) Functional currency and stated currency

The New Israeli Shekel (NIS) is the currency representing the principal economic environment in which the Bank operates. The consolidated financial statements are presented in NIS, rounded off to the nearest million, unless otherwise stated.

(3) Basis of measurement

The financial statements are prepared on the basis of historical cost, except for the following assets and liabilities:
- Derivative and other financial instruments that are measured according to fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available-for-sale;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities relating to employee benefits;
- Investments in investee companies stated by the equity method of accounting.

The value of non-monetary assets and of capital items measured on the basis of historical cost has been adjusted to changes in the CPI until December 31, 2003, due to the fact that until that date the economy of Israel had been considered a hyper-inflationary economy. As from January 1, 2004, the Bank presents its financial statements in reported amounts.

(4) Use of estimates

Preparation of financial statements requires Management to use judgment, make estimates and assumptions which affect the implementation of the accounting policy and the reported amounts of assets and liabilities and the amounts of income and expenses. It should be noted that actual results may differ from these estimates.
Upon the formation of accounting estimates used in the preparation of the financial statements of the Bank, Management is required to make assumptions as to circumstances and events which involve significant uncertainty.

When using judgment in determining the assessments, Management of the Bank relies upon past experience, various facts, outside factors and upon reasonable assumptions in accordance with the circumstances applying to each assessment.

The assessments as well as the assumptions supporting them are being reviewed on a current basis. Changes in accounting assessments are recognized in the period in which these changes occur as well as in all future periods affected by them.

C. INITIAL IMPLEMENTATION OF ACCOUNTING STANDARDS, UPDATES OF ACCOUNTING STANDARDS AND INSTRUCTIONS OF THE SUPERVISOR OF BANKS

Staring with periods beginning on January 1, 2022, the Bank implements updates of accounting principles accepted by US banks - Financial Instruments - Credit losses (ASU 2016 13) and additional instructions, as contained in the FAQ file published by the Supervisor of Banks in this matter, Circular letter No.2634-06 with respect to the implementation of US accepted accounting principles in the matter of expected credit losses - update of the public reporting instructions, circular letter No.2635-06 regarding the regulatory capital - effect of implementation of accounting principles in the matter of expected credit losses, circular letter No.2650-06 regarding expected credit losses on financial instruments - update of Proper conduct of Banking Business directives, circular letter No.2651-06 regarding implementation of accounting principles in the matter of expected credit losses on residential loans - update of public reporting instructions.

Following is a description of the substance of changes made to the accounting policy with respect to these annual financial statements, and a description of the manner and effect of the initial implementation, if at all:

On March 28, 2018, the Supervisor of Banks published a letter in the matter of "Adoption of updates to accounting principles accepted by US banks - allowances for credit losses and additional instructions". In accordance with the letter, banks are required to implement the accounting principles accepted by US banks in matters of: allowances for credit losses, financial instruments, including derivative instruments and hedge operations; as well as leases. the initial application was made in accordance with the transitional instructions stated in the US rules.

The letter adopts the US accepted accounting principles with respect to expected credit losses, published as part of the updating of Standard ASU 2016-13 (hereinafter - "CECL"). The aim of the new rules is to improve the quality of reporting the financial condition of the banking corporation by means of the early recording of allowances for credit losses, in a way that strengthens the anti-recurrence in the conduct of the allowances for credit losses, which supports a faster reaction of banks to the deterioration in the credit quality of borrowers, and the strengthening of the bond between the management of credit risks and the manner in which such risks are being reflected in the financial statements, while being based on existing methods and processes.

The principal changes in the accounting treatment in the financial statements of banking corporations, following the implementation of these rules, are inter alia: the allowance for credit losses computed in accordance with the loss expected over the period of the loan, instead of assessing the loss incurred but not yet identified; in assessing the allowance for credit losses, significant use is being made of forward-looking information reflecting reasonable and supportable forecasts as to future economic events; the disclosure regarding the effect of the date of granting the loan on the credit quality of the credit portfolio has been enlarged; the manner in which the decline in value of available-for-sale bonds is recorded has been changed. The new rules for the computation of the allowance for credit losses apply to credit (including residential loans), to bonds held to maturity and to certain off-balance sheet exposure.

On January 31, 2021, the Supervisor of Banks published a FAQ file regarding the implementation of the new rules in the matter of expected credit losses. The framework of the FAQ contained, inter alia, clarifications as to the manner of classification and reversal of restructured debts to the accruing class.

On December 1, 2020, the Supervisor of Banks published a circular in the matter of "Regulatory capital - effect of the implementation of accounting principles on expected credit losses". The circular states transitional instructions that would apply to the effect of initial adoption of the new rules in the matter of expected credit losses, and this in order to reduce unexpected effects of the implementation of the rules on the regulatory capital, in accordance with the guidelines of the Basel Committee for bank supervision and the bank supervisory authorities in the US and other countries around the world. Furthermore, on February 2, 2021, the Supervisor of Banks published a circular in the matter of "expected credit losses on financial instruments", which cancelled, inter alia, the requirement to compute a collective allowance at a minimal rate of 0.35% in respect of residential loans, and cancelled the requirement to compute a minimal allowance based on the period in default. Also cancelled was the requirement to compute a minimal qualitative allowance of 0.75% (or 0.5%) in respect of credit in the private individuals' class. In addition, Proper Conduct of Banking Business Directive No. 202 in the matter of "regulatory capital" has been updated, requiring banking corporations to deduct from the Tier I equity capital amounts in respect of residential loans classified over a period of time as non-accruing loans, in accordance with the manner of computation stated in Appendix "H" to Proper Conduct of Banking Business Directive No. 202.

Following the implementation of the Standard, the Bank has changed certain procedures regarding the classification and examination of the troubled credit - definition of credit as non-accruing interest income, rules regarding write-off and rules regarding the methods of allowance measurement. Moreover, the disclosure requirements have been modified to agree with the requirements in the US accounting standards, as adopted by the Supervisor of Banks within the framework of the public reporting instructions, and all as detailed hereunder.

As from January 1, 2022, the Bank implements the new rules regarding allowances for credit losses, recording the cumulative effect of the change in retained earnings at date of initial application. Furthermore, at date of initial application, the Bank adopted certain mitigations as allowed in the transitional instructions, including the spreading of the effect of initial application on the Tier I equity capital ratio over a period of three years, in accordance with the stated transitional instructions. The main effect, as presented below, stemmed from the updating of the measurement methods of the credit loss allowance, the treatment of residential loans of a nonaccrual status, the accounting write-offs of interest or principal, the updating of the related deferred tax balances, as well as the effect on the regulatory capital caused by the deductions from capital in respect of residential loans classified over a length of time in a Non-accruing status and recognizing the increase in the allowance for credit loss while spreading it in accordance with the transitional instructions, as stated above.

		December 31, 2021	**Effect of CECL application**	**January 1, 2022**
				NIS millions
		(Audited)		(Unaudited)
1.	**Balance sheet**			
	Credit to the public	102,240	(8)	102,232
	Balance of provision for credit losses	1,076	63	1,139
	Of which:			
	Commercial portfolio	602	93	695
	Residential loans	159	(34)	125
	Private individuals, other	315	4	319
	Credit to the public, net	101,164	(71)	101,093
2.	**Capital attributed to the Bank's shareholders**			
	Retained earnings	9,257	(44)	9,213
				Percentages
3.	Capital adequacy and leverage			
	Tier I equity capital*	11.46%	(0.02%)	11.44%
	Comprehensive capital ratio	13.59%	(0.02%)	13.57%
	Leverage ratio	5.34%	(0.01%)	5.33%

* For details of the effect on the components of the capital adequacy ratio (regulatory capital basis and average risk assets), see Note 24 regarding "Capital adequacy, leverage and liquidity".

D. ACCOUNTING POLICY APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

(1) Foreign Currency and Linkage

Transactions in foreign currency

On date of initial recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss produced by the transaction are translated into the functional currency of the Bank in accordance with the exchange rate prevailing on date of the transaction.

At any reporting date, monetary assets and liabilities denominated in foreign currency at date of the report are translated into the functional currency according to the exchange rate in effect on that date.

Non-monetary assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate in effect on the date on which fair value was determined.

Non-monetary items denominated in foreign currency and measured according to historical cost, are translated at the exchange rate in effect at date of the transaction.

Gains or losses on translation of transactions in foreign currency stemming from fluctuation in currency between the date of transactions and date of settlement/balance sheet date, including exchange differences on available-for-sale debt instruments, which in accordance with the public reporting instructions continue to be recognized in the statement of profit and loss until January 1, 2024 (as stated in the transitional instructions), are recognized in the statement of profit and loss as gains or losses on translation differences (non-interest financing income).

CPI-linked assets and liabilities not measured according to fair value

CPI-linked assets and liabilities are stated according to the linkage terms determined for each item.

Following are details of representative exchange rates, of the consumer price index and of Bank of Israel interest rate, including the rates of change therein:

	December 31			Rate of change during		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
				%	%	%
Rate of exchange of the U.S. dollar (in NIS)	**3.519**	3.110	3.215	**13.2**	(3.3)	(7.0)
Rate of exchange of the Euro (in NIS)	**3.753**	3.520	3.944	**6.6**	(10.8)	1.7
Rate of exchange of the SFR (in NIS)						
Consumer Price Index -	**107.7**	102.3	99.9	**5.3**	2.4	(0.6)
November (in points)	**108.0**	102.6	99.8	**5.3**	2.8	(0.7)
December (in points)	**3.25**	0.10	0.10			

(2) Basis of consolidation

Consolidated subsidiaries

Consolidated subsidiaries are entities controlled by the Group. The financial statements of consolidated subsidiaries are included in the consolidated financial statements since the date on which control of these entities was acquired and until the date on which control ceased to exist. The accounting policy of consolidated subsidiaries has been changed, where required, in order to modify it to the accounting policy adopted by the Group.

Non-controlling interest

Non-controlling interest comprises the capital of a consolidated subsidiary, which may not be, directly or indirectly, attributed to the parent company.

Measurement of non-controlling interests at date of a business combination - non-controlling interests are measured at fair value at date of the business combination.

Allocation of the comprehensive income among the shareholders - Profit or loss and any other component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interest. The total profit, loss and other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests, even if this results in a negative balance of the non-controlling interests.

Transactions eliminated upon consolidation

Intercompany balances as well as income and expenses not yet realized, derived from intercompany transactions, are eliminated in the preparation of the consolidated financial statements.

(3) Investments in equity based investees

Equity basis investees are entities in which the Group has a material influence over their financial and operating policies, but no actual control. The assumption is that an interest of between 20% and 50% in the investee confers a significant influence.

Investment in equity basis investees is treated by the equity method of accounting, and initially is recognized at cost. The cost of the investment includes transaction costs.

The investment in an equity basis investee is tested for impairment as a whole, when events or changes in circumstances indicate that the book value of the investment is not recoverable. Impairment is recognized when it is considered to be of a nature other than temporary.

The consolidated financial statements include the Group's share in the income and expenses, in the profit and loss and in the other comprehensive profit of entities treated by the equity method of accounting, from the date on which the significant influence first existed and until the date on which it ceased to exist.

(4) Basis of Recognition of Income and Expenses

- Interest income and expenses are recognized on an accrual basis, except for:
  interest accrued on troubled debts classified as non-performing loans, which is recognized on a cash basis where no doubt exists as to the collection of the remaining stated balance of the impaired debt. In such cases, an amount collected on account of interest to be recognized as interest income is limited to the amount that would have accrued during the reported period on the remaining stated balance of the debt according to the contractual interest rate. Cash basis interest income is classified in profit and loss as interest income in the relevant item. Where doubt exists as to the collection of the remaining stated balance of the debt, all amounts collected are used to reduce the principal amount of the loan. Furthermore, interest on housing loans in arrear is recognized in profit and loss upon actual collection.
- Commission income in respect of services provided (such as: securities and derivative instruments operations, credit cards, ledger fees, the granting of credit, currency conversion and foreign trade activity) are recognized in profit and loss upon accrual of the right thereto.
- Certain commission income, such as commission in respect of guarantees, and certain commissions regarding the finance of building projects, is recognized proportionally over the period of the transaction.
- Credit formation commissions and direct credit formation expenses are recognized over the period of the loan as adjustment of return on the loan, except in cases of restructure of a problematic loan. Where the commitment to grant the loan expires without materializing, commissions are recognized at date of expiry.
- Credit allocation commission is treated in accordance with the probability of materialization of the commitment to grant credit. Where the probability is remote, the commission is recognized by the straight-line method over the period of commitment. Otherwise, the Bank defers the recognition of income from such commission until the commitment materializes or until it expires, whichever is earlier. Upon realization of the commitment, the

commission is recognized by way of adjustment of the return over the period of the loan, as stated above. Where the commitment expires without being materialized, the commission is recognized at date of expiry.

- Change in terms of a debt - in the event of refinancing or the restructure of performing debts, the Bank examines whether the terms of the loan had been changed materially. Accordingly, the Bank examines whether the present value of future cash flows in accordance with the new terms of the loan has changed by at least 10% from the present value of the remaining cash flows according to the present terms (with the addition of a premature redemption commission). In such cases, all yet unamortized commissions and premature redemption commissions charged to the borrower in respect of the change in credit terms are recognized in profit and loss. Otherwise, these commissions are included as part of the net investment in the new loan and recognized as adjustment of return, as stated above.
- Premature redemption commission - Premature redemption commissions are immediately recognized as part of interest income, except for commissions, as stated, which are included as part of the net investment in the new loan and recognized as adjustment of return.
- Securities - see Item (6) below.
- Derivative financial instruments - see Item (7) below.
- Other income and expenses - recognized on an accrual basis.

(5) Non-accruing debts, credit risk and provision for credit losses

Identification and classification of non-accruing debts (replacing impaired debts)

The Bank has determined procedures for the identification of troubled credit and classification of debts for the purpose of distinguishing between debts classified as troubled, including non-accruing, and performing debts. In accordance with these procedures, the Bank classifies all its troubled debts and off-balance sheet credit items under the following classifications: special supervision, inferior or non-accruing. A debt is classified as non-accruing when, based on information and present events, it is expected that the Bank would not be able to collect all amounts due to it in accordance with the contractual terms of the loan agreement.

Debts, including bonds, are considered in default when repayment of principal or interest had not been made following their due date. In addition, current account deposits or current overdraft accounts are reported as debts in arears of thirty days or over, when the account remains constantly for thirty days or over in excess of the approved credit facility, or if within the credit facility no funds had been deposited covering the debt during a period of 180 days.

For the purpose of classification and treatment of troubled debts, the Bank distinguishes between:

1. Commercial credit regarding debts the contractual balance of which exceeds NIS 1 million.

   Determination regarding the classification of the debt and the required allowance in respect thereof is based, inter alia, on the default situation of the debt, assessment of the financial condition of the debtor and his repayment ability, assessment of the primary repayment source of the debt, existence and condition of collateral, the financial condition of guarantors, where existing, and their commitment to support the debt, and the ability of the debtor to obtain third party finance.

   In any event, a commercial debt, as stated above, is classified as non-accruing debt if repayment of principal or interest are in arrears for 90 days or over, except for debts that are both well secured and are in process of collection. In addition, a debt had undergone a process of restructure of a troubled debt will be classified as non-accruing credit at date of the restructure.

   As from date of classification as non-accruing debt, the debt is treated as a debt that does not accrue interest income (and is named – "non-accruing debt").

   For information regarding the accounting write-off rules applying to such debts, see the Section "Accounting write-offs" in continuation of this part.

2. Credit to private individuals, residential credit and commercial credit in respect of a debt, the contractual balance of which is lower than NIS 1 million.

Determination regarding the classification of the debt is based on the default situation of the debt. For this purpose, the Bank monitors the status of the days in arrears determined in relation to the contractual repayment terms thereof.

Such debts, which are in arrears for 90 days or over, are classified as inferior debts though the Bank does not discontinue the accrual of interest income in their respect, with the exception of residential loans which are classified as non-accruing interest income, when the payment of principal or interest is in arrears of 90 days or over.

For information regarding the accounting write-off rules applying to such debts, see the Section "Accounting write-offs" in continuation of this part.

Debt arrangement policy and treatment of restructured troubled debts

In order to improve the management and collection of credit, as well as in order to avoid failure situations or seizure of the pledged assets, the Bank had formed and is applying a policy structuring arrangement for troubled debts and making changes to terms of debts not identified as troubled. Methods for changes in debt terms may include, inter alia, deferral of repayment dates, reduced interest rates or amounts of periodic repayments, changes in terms of the debt designed to modify them to the financing structure of the borrower, consolidation of debts of the borrower, transfer of the debt to other borrowers within a borrower group under joint control, reexamination of the financial covenants applying to the borrower, and more.

The policy of the Bank is based on criteria allowing Management of the Bank to apply judgment as to whether repayment of the debt is expected, and it is applied only if the borrower had proven his ability and wish to repay the debt, and is expected to comply with the terms of the new arrangement.

In determining as to whether the debt arrangement reached by the Bank constitutes a restructure of a troubled debt, the Bank conducts a qualitative examination of all terms of the arrangement and the circumstances under which it had been made, for the purpose of determining whether:

(1) the borrower is in financial difficulties, and – (2) within the framework of the arrangement, a waiver was granted by the Bank to the borrower.

In order to determine as to whether the borrower is in financial difficulties, the Bank examines whether signs exist indicating that the borrower is in difficulty at date of the arrangement, or whether there is reasonable possibility that the borrower will encounter financial difficulties were it not for the arrangement. The Bank examines existence of one or more of the following circumstances:

- The borrower is at present in default of payment regarding any of his debts. In addition, a bank should assess as to whether it is expected that the borrower would be in default of payment regarding any of his debts in the foreseeable future, if not for making the change. Namely, a bank might reach a conclusion that the borrower is in financial difficulties, even though he is not at present in default of payment.
- The borrower informed that he is in bankruptcy or under receivership or that he is in bankruptcy proceedings or other receivership proceedings.
- Considerable doubt exists as to whether the borrower shall continue as a going concern.
- The borrower's securities are delisted, are in process of being delisted, or are under threat of delisting by a stock exchange.
- According to assessments and forecasts referring only to the existing abilities of the borrower, the bank expects that the specific cash flows of the entity of the borrower, would not be sufficient to serve any of the debts of the borrower in the foreseeable future (principal and interest), in accordance with the contractual terms of the existing agreement.

- Were it not for the existing change, the borrower would not be able to obtain cash from sources that are not the present lenders, at an effective interest rate equal to the market rate applying to a similar debt of a borrower who is not troubled.

In addition to the above, the bank concludes that waiver had been granted within the framework of the arrangement, also if as part of the arrangement the contractual interest rate was raised, if one or more of the following situations exists:

- As a result of the restructure, the bank is not expected to collect all amounts of the debt (including accrued interest in accordance with the contractual terms);
- The up-to-date fair value of the collateral, respecting debts secured by collateral, does not cover the contractual balance of the debt, indicating inability to collect the full amount of the debt;
- The borrower is unable to raise financing sources at the market interest rate applying to debts having terms and of a nature similar to those of the debt granted under the arrangement.
- If a bank does not conduct an additional underwriting process, as stated, upon renewal of an inferior debt, or where there was no change in the pricing of the debt, or where the pricing was not modified to match the risk prior to the renewal, or where the borrower does not provide additional means to compensate for the growth in risk, stemming from the financial difficulties of the borrower, then presumption exists that the renewal comprises restructure of a troubled debt.

The Bank does not classify a debt as a restructured troubled debt if the restructure leads to an insignificant delay in payment, considering the frequency of payments during the contractual period for repayment and during the expected original lifespan of the debt. In this respect, where several arrangements had been made involving changes in terms of the debt, the Bank takes into account the cumulative effect of prior restructures upon determining whether the delay in payment, stemming from the restructure, is insignificant.
As a general rule, restructure that leads to a delay in payment of 90 days and over, as compared with the contract, shall be considered restructure leading to a delay in payment which is not insignificant.

Treatment of restructured debts and of consecutive restructure

Debts, the terms of which had been changed in a restructure of a troubled debt, may be classified as a debt accruing or non-accruing interest income at date of change. In certain circumstances, where a debt had been restructured as a troubled debt, and at a later date the bank and the borrower entered into an additional restructure agreement, the bank is no longer required to refer to the debt as a restructured troubled debt, if two of the following conditions exist:

1. The borrower is no longer in financial difficulties at date of the consecutive restructure;
2. According to the terms of the consecutive restructure, the bank had not granted a waiver to the borrower (including no waiver of principal on a cumulative basis since date of granting of the original loan).

Furthermore, classification of a debt as one that had undergone restructure of a troubled debt does not automatically require the debt to be classified as a troubled debt. However, at date of change in terms, the Bank performs an updated assessment of the required classification, taking into account all relevant factors for the assessment of risk, including the scope of financial difficulties of the borrower.
Moreover, classification of a debt as one that had undergone restructure of a troubled debt does not automatically require the debt to remain classified as troubled for the remaining period to maturity, even if the debt had been classified as troubled before the restructure or at date of restructure. A debt that had undergone restructure of a troubled debt, shall be classified as negative if the debt, following the change in terms, is not satisfactorily protected by the present value and repayment ability of the borrower or by the security pledged in favor of the Bank, if exists. A debt that had undergone restructure of a troubled debt shall be classified as a "special supervision" debt if, following restructure, the debt still has potential weaknesses.

Reversal of a non-accruing debt into an accruing debt status

As a general rule, non-accruing debt is reversed to accruing debt, if one of the two situation exists:

1. There are no principal or interest components of the debt that are due and have not been paid, and the bank expects payment in full of the remaining principal amount of the debt and interest, in accordance with the contractual terms (including amounts written-off accounting wise or allowed for);
2. When the debt becomes well secured and is in process of collection.

Furthermore, with respect to a debt that had been formally restructured as a troubled debt, and was classified as non-accruing at date of change in terms, a bank may reverse the debt into an accruing status, on condition that an up-to-date and well documented credit analysis had been performed, which supports the reversal of the debt to accruing status, based on the financial condition of the borrower and prospects of repayment in accordance with the updated terms. The assessment must be based upon continuous historical repayments of the borrower made in cash or cash equivalents over a reasonable period lasting at least six months. A bank may take into account payments made during a reasonable period prior to the restructure if the payments match the updated terms. Otherwise, a restructured troubled debt must continue to be classified as a non-accruing debt.

Likewise, regarding a debt formally restructured as a troubled debt, that had been classified as an accruing debt prior to the restructure, a bank may continue to accrue interest on condition that following the restructure, collection of principal and interest in accordance with the updated terms, is reasonably ensured, based on an updated and well based credit analysis, provided that the borrower has a continuous repayment history for a reasonable period prior to the changes, and that the restructure has improved the prospects of collection of the loan, in accordance with a reasonable repayment schedule.

Starting with January 1, 2022, the above rules regarding the treatment of a restructured troubled debt, apply also to residential loans.

Within the framework of the guidelines stated in the FAQ file regarding the implementation of the new rules in the matter of expected credit losses, the Bank has chosen to apply the new rules as to identification of restructure of troubled debts, and measure the allowance for credit losses by the method prescribed by these rules regarding debts that had undergone restructure of a troubled debt, in respect of changes made to terms of residential loans, prior to January 1, 2022.

Allowance for credit losses – measurement

As stated above, starting with January 1, 2022, the Bank applies the accounting principles accepted by US banks in the matter of measurement of credit losses stemming from financial instruments, as detailed in Item 326 of the Codification (ASC 326) – financial instruments – credit losses.

As part of the implementation of the Standard, the Bank has determined procedures for the classification of credit and for the measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover expected credit losses in relation to its credit portfolio. In addition, the Bank has determined procedures required to maintain an appropriate level of allowance in order to cover expected credit losses relating to bonds held to maturity, bonds held in the available-for-sale portfolio and to certain off-balance sheet credit exposure.

The assessment of the allowance for expected credit losses is calculated over the contractual period of the financial asset, while taking into account estimates of premature repayments. The contractual period in respect of extensions, renewals and expected changes is not taken into account, unless one or more of the following situations exist: (a) at date of reporting, the Bank has reasonable expectations of reaching a restructure of a troubled debt with the borrower, or (b) the option of extension or renewal is included in the original agreement or in an updated agreement at the reporting date, and it may be unconditionally revoked by the Bank.

When processing the assessment of expected credit losses, the Bank takes into account the effect of past events, present conditions, and supported reasonable forecasts regarding the collectability of the financial assets.

As a general rule, computation of the allowance for expected credit losses is made on a collective basis where the assets are of a similar risk characteristics. These characteristics include, inter alia: (1) segment of operation of the borrower; (2) internal or external credit ratings or markings; (3) risk rating or risk classification; (4) type of financial assets.

For each group of financial assets having similar risk characteristics, the Bank computes the allowance for expected credit losses in accordance with one of the methods for the measurement of the allowance stated in the Standard, which in the opinion of the Bank, is expected to reflect the best assessment of the allowance for credit losses.

In order to estimate the assessment for expected credit losses over the contractual period of the assets, the Bank bases itself on historical information, while testing the need to modify the historical data in order to reflect the extent to which the existing terms and the supported reasonable forecasts would be different than the terms that had prevailed in the period during which the historical data had been evaluated. For the purpose of such determination, the Bank takes into account the nature of the financial assets, including the factors relevant to the determination of expected collectability, such as: the financial condition of the borrower, his credit rating, quality of the asset, ability of the borrower to pay the principal amount or interest on their due dates, the balance of the period to maturity, the scope and severity of financial assets in arrears, in a negative rating or classification, policy and procedures of the Bank regarding the granting of credit, including changes in credit granting strategy, underwriting procedures, etc.

In cases where the period determined by the Bank is reasonable and well based and is shorter than the period to maturity of the financial asset, then the Bank reverts to the use of the historical data that had not been modified in respect of existing economic conditions or in respect of expected future economic conditions, such as: changes in the rate of unemployment, value of assets, value of commodities, arrears and more. Reversal to the use of historical losses may be made by one of the following methods: (1) immediate reversal; (2) reversal on the straight-line basis; (3) use of another logical and methodical basis. For information in respect of the chosen methods, see the reference hereinafter.

Allowance for credit losses – consumer credit (excluding residential loans)

With respect to the consumer credit portfolio, which includes credit to private individuals, excluding residential loans, the Bank measures the allowance for expected credit losses using the probability for failure/loss method, given a failure (PD/LGD), while dividing the credit portfolio into segments having similar risk characteristics, such as internal rating of the customer, type of financial asset, and more.

For the purpose of modifying the historical information to present economic conditions and in respect of expectations regarding future economic conditions, the Bank has determined that the supported reasonable period is one year. Concerning assets having a contractual lifespan longer than this period, the Bank reverts to the use of historical information that is not immediately modified to the forecast.

Allowance for credit losses – residential credit

In respect of the residential credit portfolio, the Bank measures the allowance for expected credit losses using of the probability for failure/loss method, given a failure (PD/LGD), while dividing the credit portfolio into segments having similar risk characteristics, such as internal rating of the customer and age of the loan.

For the purpose of modifying the historical information to present economic conditions and in respect of expectations regarding future economic conditions, the Bank has determined that the supported reasonable period is one year. Concerning assets having a contractual lifespan longer than this period, the Bank reverts to the use of unmodified historical information, using the straight line basis over a period of four years, which represents approximately one half of the average lifespan of the portfolio.

Allowance for credit losses – commercial credit

In respect of most of the commercial credit portfolio, the Bank measures the allowance for expected credit losses using a method based on the weighted average remaining maturity (WARM) - loss rate, while dividing the credit portfolio into segments having similar risk characteristics, on the basis of internal rating of the borrower and his segment of operation.
In order to create segmentation on the basis of the line of business of the borrower, the Bank divided the commercial credit into six central economic segments: industry, construction and real estate, real estate activity, commerce, financial services and other commercial activities.
For the purpose of modifying the historical information to present economic conditions and in respect of expectations regarding future economic conditions, the Bank has determined that the supported reasonable period is one year. Concerning assets having a contractual lifespan longer than this period, the Bank returns to the use of historical information that is not immediately modified to the forecast.

Allowance for credit losses – credit to governments and banks

In respect of credit to governments and banks, the Bank measures the allowance for expected credit losses using the PD/LGD method, while dividing the credit portfolio into segments having similar risk characteristics, on the basis of external rating.
In addition to that, the Bank has determined criteria and factors that are taken into account in order to determine that in respect of certain exposure to governments, the expected credit losses are insignificant.

Allowance for credit losses – off-balance sheet credit exposure

Off-balance sheet credit exposure includes credit exposure in respect of commitment to extend credit, documentary credits, financial guarantees not treated as assurance, and other similar instruments.
The allowance for credit losses in respect of off-balance sheet credit is assessed in accordance with the rules stated in Item 326 of the Codification, and is based on the rates of allowance determined for stated credit (as detailed above), while taking into account the rate of materialization of the credit expected upon a failure event regarding the off-balance sheet exposure risk. The expected rate of materialization in case of failure, is computed by the Bank for each type of off-balance sheet exposure, based on past experience indicating the rates of materialization of the credit in case of a failure.

Allowance for credit losses – securities held-to-maturity portfolio

In respect of securities included in the held-to-maturity portfolio, the Bank measures the allowance for expected credit losses using the PD/LGD method, while dividing the credit portfolio into segments having similar risk characteristics, on the basis of external rating.
The Bank does not measure expected credit losses in respect of certain government bonds, because information regarding historical credit losses, after being modified to existing conditions and to supported reasonable forecasts, leads to expectations that nonpayment of the write-down cost base equals zero.

Allowance for credit losses – available-for-sale bonds

The Bank measures expected credit losses regarding available-for-sale bonds at each reporting date on which the fair value of the bonds is lower than the written-down cost.
At each date on which the fair value is lower than the written-down cost, the Bank examines whether impairment stems from credit losses or from other factors. Impairment stemming in relation to credit loss, is recognized by means of an allowance for credit losses, while impairment not recognized by means of an allowance for credit loss, is recognized in other comprehensive profit, net of tax.
In accordance with guidelines stated in Item 326 of the Codification, the Bank computes the allowance for expected credit losses regarding available-for-sale securities , on a specific basis, according to the discounted cash flows

method, by which the Bank compares the discounted value of expected future cash flows, determined on the basis of past events, present conditions and on supported reasonable forecasts (such as: segmental, geographic, economic and political factors, relevant to the ability of collection of the particular bonds), to the written-down cost base of the security. The said allowance is stated as a credit loss expense, in order to reflect the credit loss component of the decline in fair value to below the written-down cost. The allowance for credit losses in respect of available-for-sale bonds is limited so that its amount should not exceed the amount of the difference between the written-down cost amount and the lower fair value amount, named "fair value bottom limit".

Where the fair value of a security increases with time, any allowance for credit losses not written-off accounting wise, is cancelled by reducing the credit loss expense.

Allowance for credit losses – loss estimated on a specific basis

In accordance with the guidelines stated in Item 326 of the Codification, when the Bank identifies that a financial asset does not have joint risk characteristics similar to those of other financial instruments, then the allowance for credit losses in respect of such an asset is measured on a specific basis. In accordance with an assessment made by the Bank, the types of credit identified as not sharing similar risk characteristics with other financial assets, are non-accruing debts having a contractual balance of over NIS 1 million, for which the allowance is computed on a specific basis, using the discounted cash flows method, and/or on basis of the value of the collateral for loans the collection of which depends on collateral.

Testing the overall adequacy of the allowance

In addition to the above, the Bank tests the overall adequacy of the credit loss allowance. Such an adequacy assessment is based on the judgment of Management, taking into consideration risks inherent in the credit portfolio as well as deficiencies and limitations contained in the assessment methods applied by the Bank for the determination of the allowance.

Accounting write-off

The Bank writes-off accounting wise any debt or part thereof considered as uncollectible or of a low value, so that maintaining it as an asset is not justified, or a debt in respect of which collection efforts are conducted by the Bank over a long period (defined in most cases as a period exceeding two years).

Regarding a debt the collection of which depends on collateral, the Banks makes an immediate accounting write-off against the allowance for credit losses of that part of the stated balance of the debt exceeding the fair value of the collateral.

In respect of commercial credit regarding a debt, the contractual balance of which (before deducting write-offs that do not involve legal waiver, unrecognized interest, allowances for credit loss and collateral) is lower than NIS 1 million, and credit to private individuals, not including residential loans, the Bank records an accounting write-off when the debt is in default for 150 days or more. In this respect it is noted that, where the debt is secured by collateral that is not a residential property, and seizure of the collateral had begun and is assured, the Bank writes-off accounting wise only that part of the stated balance of the debt that exceeds the value of the collateral (net of selling expenses).

As regards residential loans secured by residential property, the Bank conducts an up-to-date assessment of the value of the collateral, no later than the date on which the loan turns into a debt in arrears for 180 days or more, and writes-off accounting wise that part of the stated balance of the loan that exceeds the value of the collateral (net of selling expenses).

It is clarified that accounting write-offs do not involve a legal waiver, and that they reduce the balance of the debt solely in respect of reporting for accounting purposes, while creating a new cost basis for the debt in the books of the Bank.

Disclosure requirements

The Bank applies the disclosure requirements as to the credit quality of debts and as to the allowance for credit losses, as determined in Item 310-10 of the Codification with respect to "debts" and in accordance with the disclosure requirements of Item 326-20 of the Codification regarding "financial instruments – credit losses - instruments measured at written-down cost" on a consolidated basis.

See also Note 13 regarding "credit risk, credit to the public and allowance for credit losses", as well as Note 29 regarding "additional information regarding credit risk, credit to the public and allowance for credit losses".

The Bank has modified such disclosure to the new disclosure format and to disclosure regarding non-accruing debts replacing impaired debts, while reclassifying the comparative data in order to modify it to the new disclosure format, excluding the reporting requirements regarding credit quality in accordance with the year of granting the credit, in respect of which presentation of comparative data is not required for periods prior to the initial implementation.

(6) Securities

- The bank's investments in securities are classified, into three portfolios, as follows:
  - Held to Maturity Bonds - bonds, which the Bank has the intention and ability to hold until their redemption date, excluding bonds which may be prematurely redeemed or settled in another way so that the Bank might not cover substantially all of its recorded investment therein. Held to maturity bonds are stated at cost with the addition of exchange or linkage increments and interest accrued, as well as the unamortized amount of discount or premium and less a loss in respect of the allowance for credit losses and losses stemming from accounting write-offs (following impairment).
  - Available-for-Sale Bonds - bonds not classified as bonds held to maturity or as trading securities. Available for sale bonds are stated in the balance sheet at their fair value on the reporting date. Unrealized gains or losses from adjustment to fair value are not reflected in profit and loss but are stated net of an appropriate tax allowance, in a separate item of shareholders' equity, as part of other cumulative comprehensive profits, except for losses in respect of an allowance for credit losses and loss on accounting write-offs (due to impairment).
  - Trading Securities - securities purchased and held for sale in the near future or securities which the Bank elects to measure at fair value through profit and loss, according to the fair value alternative, excluding shares in respect of which fair value is not readily available. Trading securities are stated at their fair value on the reporting date. Unrealized gains or losses on adjustment to fair value are reflected in the statement of income.
  - Shares not held for trading
    - Shares in respect of which fair value is readily available are stated in the balance sheet at fair value as of the reporting date. Unrealized gains or losses on adjustment to fair value are reflected in the statement of income.
    - Shares in respect of which no readily available fair value exists are stated in the balance sheet at cost, net of impairment and with the addition or deduction of changes in observable prices of regular transactions in similar or identical investments of that same issuer. Unrealized gains or losses on adjustment to changes in observable prices, as stated, are reflected in the statement of income.
- Dividend income, accrued interest, exchange and linkage increments, amortization of premium or discount (according to the effective interest method) as well as allowances for credit losses and loss on accounting write-offs (due to impairment) are reflected in the statement of income.
- The bank's investments in private equity funds are stated at cost less losses on impairment of a nature other than temporary. Gain on investments in venture capital funds is recognized in profit and loss upon realization of the investment.
- The cost of realized securities is based on the "first in first out" method.
- See Item (8) hereunder regarding the computation of fair value.

- See Item (9) hereunder regarding the treatment of impairment of securities.

(7) Derivative Financial Instruments including hedge accounting

The Bank holds derivative financial instruments for the purpose of hedging exposure to certain risks (such as: interest risk, foreign currency risk) as well as derivatives not used as hedge, including separated embedded derivatives. As a general rule, derivatives are initially recognized at fair value. Following initial recognition, the derivatives are measured at fair value, changes in fair value being treated as described hereunder:

Hedge accounting

The Bank is exposed to interest risk stemming from its investments in fixed interest bonds. As part of the general strategy of the Bank for the management of exposure level to this risk, the Bank designates certain financial instruments as fair value hedge.

At date of beginning the hedge relations, the Bank formally documents the hedge relations and the purpose of its risk management and strategy for conducting the hedge. Documentation includes identification of each of the following: the hedge instrument, the hedged item or transaction, the substance of the hedged risk, and the method to be used by the Bank for the assessment of the effectiveness of the hedge relations, offsetting exposure to changes in fair value of the hedged item (in a fair value hedge) attributed to the hedged risk.

Fair value hedge

The Bank designates derivative instruments as hedge for exposure to changes in fair value of an asset or liability, or an identified part thereof, which may be attributed to a certain risk.

Where a derivative instrument is used as a hedge instrument for fair value, the changes in its fair value included in the assessment of the effectiveness of the hedge, are recognized on a current basis in profit and loss and are presented in the same item in which the effect of the hedged item is presented. The profit or loss (namely, the changes in fair value) in respect of the hedged item that is attributed to the hedged risk, is treated as adjustment to the book value of the hedged item, and is recognized on a current basis in profit and loss. The adjustment to the book value of the hedged item shall be treated in a similar manner to other components of its book value.

The Bank ceases to apply hedge accounting when: the criteria for the application of hedge accounting no longer exist, the derivative instrument expires, is sold, cancelled or is realized, or when the Bank cancels the designation of the hedge relations.

Economic hedge

Hedge accounting is not applied in the case of derivative instruments used as part of the asset and liability management layout of the Bank (ALM). Changes in fair value of such instruments are reflected in profit and loss as they occur and are presented in the item "non-interest financing income".

Derivative instruments Not used for hedge standing on their own

Derivative instruments not used for hedge purposes and which are standing on their own, are measured at fair value and presented in the balance sheet in items of assets or liabilities in respect of derivative instruments. Changes in their fair value are recognized on a current basis in profit and loss and presented in the item "non-interest financing income".

Embedded derivative instruments that were separated and not used for hedge

Embedded derivative instruments are separated from the host contract and treated separately as derivative instruments in accordance with sub-item 815-10 of the Codification, when: (1) the economic characteristics and the risks of the embedded derivative instrument are not clearly and closely connected to the economic characteristics and risks of the host contract; (2) the instrument involved is not remeasured on the basis of its fair value in accordance with other suitable accepted accounting principles, together with the recognition of changes in fair value in profit and loss as they occur; and (3) a different instrument having the same terms of the embedded derivative instrument agrees with the definition of a derivative.

In certain cases (such as cases where the Bank is unable to separate the embedded derivative from the host contract), the Bank elects to measure the hybrid financial instrument as a whole at fair value, while reporting changes in fair value in profit and loss. The said election is made upon acquisition of the hybrid instrument or when certain events occur in which the instrument is subject to remeasurement (a remeasurement event), such as a business combination or material changes taking place in the debt instrument. Election of measurement according to fair value, as stated, is irrevocable and is made in respect of each instrument separately.

(8) Fair value determination of financial instruments

Fair value is defined as the amount/price which would be received from the sale of an asset or paid in settlement of a liability in a regular transaction between willing parties at date of measurement. Among other things, for the purpose of assessing fair value, the Standard requires that, as far as possible, maximum use should be made of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. Sub-item 820-10 of the Codification details the hierarchy of measurement techniques, based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets and liabilities, to which the Bank has access at measurement date.
- Level 2 inputs: observable data, directly or indirectly, for the asset or liability, which are not quoted prices included in Level 1.
- Level 3 inputs: unobservable inputs for the asset or liability.

Securities

The fair value of trading securities, available-for-sale bonds and of shares not held for trading is determined on the basis of quoted market prices on the principal market. Where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most useful market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that same quoted market price. The quoted price used for the determination of fair value is not adjusted for the size of the position of the Bank relatively to the volume of trading (the block holding factor). Where no quoted market price is available, the assessment of fair value is based on the best available information, while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk, non-trading and such like). Excluding shares not held for trading that have no readily available fair value and are measured as detailed in item (6) above.

Derivative financial instruments

Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most useful market. Nonmarketable derivative financial instruments are assessed on the basis of models that take into account the risk inherent in the derivative instrument (market risk, credit risk, etc.). For further details, see below for assessment methodologies of credit risk and non-performance risk.

Additional non-derivative financial instruments

No "market price" is available for most of the financial instruments in this category (such as: credit granted to the public, credit to the government, deposits from the public, deposits with banks, subordinate debt notes and non-tradable securities) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the level of risk inherent in the financial instrument. For this purpose, future cash flows in respect of non-accruing debts and other debts have been computed after the netting of the effect of accounting write-offs and provisions for credit losses in respect of the debts.

Evaluation of credit risk and of nonperformance risk

FAS 157 (ASC 820) requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only. For a more extensive discussion as regards the principal methods and assumptions used for assessment of fair value of the financial instruments, see Note 32A "Balances and fair value assessments of financial instruments".

(9) Impairment of financial assets

Securities - bonds available for sale or which are held to maturity

See Item (5) above.

Securities - shares that have no readily available fair value

At each reporting period, the Bank performs a qualitative assessment, which takes into account impairment indicators in order to estimate whether impairment has occurred regarding the investment in shares that have no readily available fair value. Where, according to such assessment, impairment of the investment in shares has occurred, the Bank assesses the fair value of the investment for the purpose of determining the amount of loss on impairment.

Credit to the public and outstanding debt

See Item (5) above.

(10) Offsetting of financial assets and liabilities

The Bank sets-off assets and liabilities deriving from the same counterparty, stating their net balance in the balance sheet, if the following cumulative conditions exist:

a. In respect of such liabilities, a legally enforceable right of setoff of liabilities against assets exists;
b. Intention exists to settle the liabilities and realize the assets either on a net basis or concurrently.
c. Both the Bank and the counterparty owe one another determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and states in the balance sheet the net amount if all the above cumulative conditions exist and on condition that an agreement exists between the three parties which clearly establishes the right of the Bank for set-off of the said liabilities.

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the extent of collection of the loans granted out of such deposits, and where the Bank has no risk of loss from such loans.

(11) Transfers and service of financial assets and the settlement of liabilities

The Bank applies the measurement and disclosure rules determined within the framework of the instructions of Sub-Item 860-10 of the Codification in the matter of transfer and service of financial assets for the purpose of treatment of transfers of financial assets and settlement of liabilities.

According to the said rules, the transfer of a financial asset shall be treated accounting wise as a sale, if and only if all the following conditions exist: the transfer of a financial asset in entirety, of a group of financial assets in entirety, or of a participating interest in a financial asset in entirety, by which the transferor bank waives control over the said financial assets, is recorded as a sale, if and only if, all the following conditions exist: (1) the transferred financial assets had been isolated from the transferor and are beyond the reach of the transferor and his creditors also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset has the right to pledge or exchange the asset (or the beneficiary rights) received by him, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which also grants the transferor a larger than just a trivial benefit; and (3) the transferor does not retain effective control over the transferred financial assets.

In the event that the Bank performs a transfer of a part of an entire financial asset, the Bank examines as to whether such transfer conforms to the definition of a participating interest. A participating interest has all the following characteristics: (a) from date of transfer onwards, it represents a pro-rata ownership right in the entire asset; (b) from date of transfer onwards, all cash flows received from the entire financial asset are divided proportionately among holders of the participating interest, in amounts equal to their share in ownership; (c) the rights of all holders of participating interests (including the transferor in his role as a holder of a participating interest) have identical priority, and no right of any holder of a participating interest is inferior to the right of another holder of a participating interest; and (d) no party has the right to pledge or change the entire financial asset, unless all holders of participating interest agree to pledge or exchange the entire financial asset.

To the extent that the transfer fulfills the conditions for recording it as a sale, the Bank removes the transferred financial assets and recognizes at fair value the assets received and the liabilities created as a result of the sale (assets received and liabilities created). The difference between the fair value of the net receipt and the book value of the financial assets sold is recognized in the statement of profit and loss.

In the event that the transfer does not conform to the terms of a sale, as stated above, or if a transfer of a part of an entire financial asset does not conform to the definition of a participating interest, then the said transfer is treated as a secured borrowing with a pledge of collateral. The Bank continues to record in the balance sheet the financial assets transferred, with no change in the measurement thereof.

Furthermore, in accordance with an update to Bank of Israel instructions regarding the improved use of financial statements for the years 2017 and 2018, the disclosure requirements regarding syndication transactions were updated. See Note 29 regarding "Additional information regarding credit risk, credit to the public and provision for credit losses".

Settlement of liabilities

The Bank deletes a liability if, and only if, that liability had been settled, namely, one of the following conditions exist: (a) the Bank has paid the lender and is released from his commitment with respect to the liability, or (b) the Bank has been legally released, either by legal proceedings or with the consent of the lender, from being the principal debtor in respect of the liability.

Transactions regarding the lending of securities managed as credit transactions

The Bank applies specific instructions determined in the public reporting instructions for the treatment of securities lending or borrowing transactions, in which the lending is made against the general credit quality and the general collateral of the borrower, where the borrower does not transfer to the lender as collateral liquid instruments that specifically relate to the securities lending transaction, and which the lender is permitted to sell or pledge them.

Treatment of non-secured lending of securities held in the available-for-sale portfolio or in the trading portfolio

On the day that the Bank lends securities to cover short sales by the borrower, the Bank deletes the securities on loan, recognizing credit granted in the amount of the market value of the securities on the lending day. In following periods, the Bank measures the credit granted in the same manner in which the securities had been measured prior to the lending thereof. The credit is measured at market value. Income on an accrual basis in respect of such securities is recognized as interest income from credit and changes in market value (over and above the changes in the accrual basis) are recognized as part of non-interest financing income, when the securities in question are included in the trading portfolio, or as part of other comprehensive profit, in the case of available-for-sale bonds. Upon the termination of lending, the Bank recognizes again the securities and deletes the credit.

Treatment of non-secured borrowing of securities

The non-secured borrowing of securities by the Bank is recorded on the borrowing date as a deposit, at the fair value of the securities received on the borrowing day. The securities received are recognized in the "Securities" item and are classified to the trading portfolio. So long as the Bank does not short sell the security borrowed, the Bank records at each reporting period the difference, whether positive or negative, between the market value of the security at the reporting date and the balance recorded as a deposit from the public (or other deposit if the borrowing was not from the public). Changes in this item in the reported period stemming from changes in market value of the security are recorded as "non-interest financing income" (these changes offset the gains or losses recorded in profit and loss in respect of the security which was not as yet short sold).

When the Bank short sells a borrowed security, the Bank examines at any reporting date, whether the difference between the market value of the short sold security at the reporting date and the balance in respect of the non-secured borrowing transaction included in deposits from the public (or in other deposits if the borrowing was not from the public) is positive. In the case that the said difference is positive, it is recognized and reported as "non-interest financing income" in profit and loss.

(12) Fixed assets (buildings and equipment)

Recognition and measurement

Fixed asset items, including investment real estate, are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, as well as any other costs that may be directly attributable to bringing the asset to the place and condition required for it to operate in the manner planned by Management.

Cost of acquired software, which forms part of the operation of related equipment, is recognized as part of the cost of the said equipment.

Gain or loss on disposal of a fixed asset are determined by comparing the consideration received on disposal to the stated value of the asset and are recognized, net, in the item “Other income” in the statement of profit and loss.

Depreciation

Depreciation is charged to profit and loss by the straight-line method over the estimated useful life of each part of the fixed asset items, as this method reflects in the best manner, the anticipated consumption format of the future economic benefits inherent in the asset. Assets on lease are depreciated over the shorter of the lease period or the useful lives of the assets. Land owned by the Bank is not depreciated.

An asset is being depreciated when it is available for use, namely, when it reached the place and condition required for it to operate in the manner planned by Management.

Assessment of the useful lives of assets for the reported and comparative periods is as follows:

- Buildings and land	- 25-50	years
- Furniture and equipment	- 7-17	years
- Motor vehicles	- 5	years
- Leasehold improvements	- 7-18	years
- Information technology equipment	- 3-8	years

The assessments regarding the depreciation method, the useful lives and the residual value of assets are re-examined when events or changes in circumstances indicate that the present assessments are no longer applicable, and are modified, where required.

Impairment

The Bank tests noncurrent assets (or group of assets) for impairment when events or changes in circumstances indicate that the written down cost may not be recoverable.

For the purpose of examination and measurement of impairment, the Bank groups together an asset (or a group of assets) with other assets and liabilities at the lowest level possible which produces cash flows that are not dependent on cash flows produced by other groups of assets and liabilities. Recognized losses on impairment are taken only to the asset (or group of assets) to which Item 360 of the Codification applies.

Losses on impairment are recognized only if the book value of a noncurrent asset (or group of assets) is not recoverable and exceeds its fair value.

Book value is considered irrecoverable if it exceeds the total noncapitalized cash flow expected to be derived from use of the noncurrent asset (group of assets) and its disposal.

Loss on impairment amounts to the difference between the book value of the noncurrent asset (or group of assets) and its fair value, and is reflected in the statement of profit and loss.

When a loss on impairment is recognized, the adjusted book value of the noncurrent asset (or group of assets) comprises a new cost basis. The loss recognized on impairment is not reversed in following periods, even if an increase in value of the noncurrent asset occurs.

(13) Leasing

Contracts which grant the Bank control over the use of an asset within the framework of a lease for a period of time in return for consideration are treated as leases. Upon initial recognition, a liability is recorded in the amount equal to the present value of the future lease payments over the lease period (these payments do not include variable lease payments), and in parallel, a right of use asset is recognized in the amount of the liability in respect of the lease, adjusted for lease payments paid in advance or accrued, and net of lease incentives, with the addition of accrued direct expenses in respect of the lease.

The lease period is determined as the period in which the lease may not be terminated, together with periods covered by an option for extension or for termination of the lease, where it is reasonably certain that the lessee would exercise or not exercise the option, respectively, and together with periods covered by an option to extend or not to terminate the lease, where the right to exercise the option is controlled by the lessor.

The Bank has elected to apply the practical mitigation according to which short-term leases of up to one year are treated in a way that the lease fees are recognized in profit and loss by the "straight line" method, over the period of the lease, with no recognition of a right of use asset and/or a liability in respect of the lease in the financial condition report.

In the case of lease of land and buildings, the land and buildings components are tested separately for the purpose of classification and measurement, where a significant consideration in classifying the land component is the fact that generally land has an indeterminate lifespan.

The Bank has elected to apply the practical mitigation of not separating from the lease components, those components that do not comprise a lease, such as services or maintenance, treating them as a single lease component.

Consecutive measurement

Following the initial recognition, a liability in respect of an operating lease is measured at amortized cost in accordance with the effective interest method. Likewise, the Bank tests a right of use asset (in respect of both operating and financial leases) for the purpose of impairment in accordance with sub-item 360-10-35 of the Codification regarding impairment of fixed assets.

Operating lease payments

The lease payments, excluding variable lease payments, are recognized in profit and loss according to the "straight line" method, over the period of the lease. Lease incentives received are recognized as an integral part of total lease expenses according to the "straight line" method, over the period of the lease. Variable lease payments dependent on the CPI or on the interest rate, are recognized in profit and loss in the lease period. Variable lease payments not dependent on the CPI or on the interest rate, are recognized in profit and loss in the period in which it is expected that the specific target leading to changes in the lease payments would be reached, and these would be cancelled in the period in which it is no longer expected that the specific target would be reached.
At each consecutive reporting date, the right of use asset is recognized in the amount of the amortized cost of the liability in respect of the lease, adjusted for lease payments paid in advance or which had accrued, net of lease incentives and with the addition of not yet amortized direct costs, net of losses on impairment accrued in respect of the right of use asset.

(14) Intangible assets

Costs of software for own use

Software purchased by the Group is measured at cost, which generally includes the cost of the transaction, less accumulated amortization and losses on impairment.
The Bank capitalizes costs related to software development for internal use only when: (1) the preliminary stage of the project had been completed; and (2) Management, having the appropriate authority, has approved and has committed to finance, directly or indirectly, the project for the development of software and it is expected that the development would be completed.
Upon development or obtaining software for own use, the Bank capitalizes the following costs: direct costs of materials and services consumed, cost of payroll for employees directly connected with the development or obtaining the software. Other costs incurred in respect of development work and costs in the preliminary stage of the project, are recognized in profit and loss as incurred.

Subsequent costs

The cost of upgrading and improvement of software for internal use is capitalized only if it is expected that the incurred costs would lead to additional functionality. Other subsequent costs are recognized as an expense as incurred.

Amortization

Intangible assets created by software projects are amortized to profit and loss by the "straight-line" method over the estimated useful life of the software, beginning with the date on which the software is ready for its intended use. In this respect, software is ready for its intended use when all material examinations thereof have been completed.

Assessment of the useful lives of software costs for the reported and comparative periods is five years.
The assessments regarding the useful lives of intangible assets having a defined lifespan are re-examined on a periodic basis in order to determine whether events or circumstances justify a change in the remaining amortization period, which is accordingly adjusted, where required.

Impairment

The Bank tests for impairment intangible assets having a determinable lifespan, when events or changes in circumstances occur, indicating that the written down cost may not be recoverable. Losses on impairment are recognized only if the book value of the intangible asset is irrecoverable and exceeds its fair value. The book value is considered irrecoverable if it exceeds the total cash flows in noncapitalized values, expected to be derived from the use of the asset and its final disposal.

Loss on impairment amounts to the difference between the book value of the intangible asset and its fair value, and is reflected in the statement of profit and loss.

When a loss on impairment is recognized, the adjusted book value of the intangible asset comprises a new cost basis. The loss recognized on impairment is not reversed in following periods, even if an increase in value of the intangible asset occurs.

Hereunder are examples of events or changes in circumstances indicating impairment of in-house development costs of computer software:

1. It is not anticipated that the software will provide significant potential services;
2. A significant change has occurred in the manner or scope of use of the software or in its anticipated use;
3. A material change in the software was performed or would be performed in the future;
4. The development costs or the cost of conversion of the software intended for internal use, significantly exceed anticipated costs;

When it is no longer expected that development of the software would be completed, the Bank adjusts the book value of the software so that its amount would be the lower of its book value or its fair value, net of sale costs. In this respect, a disputable assumption exists that the fair value of the software in such a case is worthless.

(15) Employee rights

Post-retirement benefits - pension, severance compensation and other benefits (hereinafter -"compensation") - defined benefits plans

Pension benefits comprise a part of the compensation payable to an employee in return for his services. In a defined benefit pension plan, the Bank is committed to provide, in addition to current wages, severance compensation upon retirement or termination of employment. On a general level, the amount of benefit payable is dependent on certain future events included in the benefit formula of the plan, which often includes the number of years of service of the employee and the compensation earned by him in the years immediately prior to his retirement or termination.

The net cost of pension for a period is the amount recognized in the financial statements of the Bank as the cost of the pension plan for a given period. The component of the net cost of pension for the period are the cost of service, the cost of interest, the actual return on assets of the plan, profit or loss, amortization of cost or credit in respect of prior service, and the amortization of an asset or liability in respect of the transition existing at date of initial implementation, in accordance with the public reporting instructions. The term "net pension cost for the period" is used instead of "net pension expense for the period", due to the fact that a part of the recognized cost for the period might be capitalized together with additional costs as part of an asset, for example: software for internal use.

In this respect, profit or loss is the amount of (1) the difference between the actual return on assets of the plan and the forecasted return on the assets of the plan, and of (2) the deduction of the net profit or loss recognized in other cumulative comprehensive earnings.

Pension benefits are generally attributed to periods of service of an employee, based on the benefit formula of the plan, to the extent that the formula states such attribution or that attribution is inferred there from.

The Bank computes the forecasted long-term return on the assets of the plan using historical rates of return over a long period of time relating to a portfolio having a similar composition of assets. For this purpose, the Bank uses available market data as regards each of the significant categories of assets in the portfolio, and averages them in accordance with the composition of the plan's assets.

The commitment in respect of the forecasted benefit reflects the present actuarial value of all benefits attributed to the service of the employee provided prior to balance sheet date. The measurement of this commitment is based on appropriate actuarial assumptions at date of the balance sheet of the Bank (for example: replacement, mortality, discounting rates etc.).

In the event that the commitment in respect of the forecasted benefit exceeds the fair value of the plan's assets, the Bank recognizes in the balance sheet a liability equal to the amount of the unfunded commitment in respect of the forecasted benefit. Where the fair value of the assets of the plan exceed the commitment in respect of the forecasted benefit, the Bank recognizes in the balance sheet an asset in an amount equal to the overfunded amount in respect of the forecasted benefit.

The Bank collects together the positions of all overfunded plans and recognizes this amount as an asset in the balance sheet. Similarly, the Bank collects together the positions of all under-funded plans and recognizes this amount as a liability in the balance sheet.

The Bank reviews its assumptions on a quarterly basis and revises such assumptions accordingly.

A change in the value of a commitment in respect of a forecasted benefit or in the value of assets of a plan, stemming from actual experience, which is different from the forecast, or which stems from a change in the actuarial assumptions, constitutes "profit or loss" (hereinafter - "actuarial profit or loss"). Actuarial profits or losses are not recognized as part of the net cost of pension for the period when incurred, but are recognized in other comprehensive earnings. In following periods, such profits or losses are later recognized in profit and loss as a component of the net cost of pension for the period according to the "straight line" method over the remaining average period of service of the employees expected to enjoy the benefits under the plan.

The Bank recognizes losses in respect of settlements effected under its defined benefit programs, when the expected one-time payments related to the program would be higher than the total cost of the service and the cost of the annual interest. The amount of the loss is calculated in accordance with the percentage of the rate in which the actuarial liability declined as a result of the settlement, multiplied by the balance of the actuarial profits and losses accumulated in other comprehensive earnings.

The discounting rate regarding the benefits to employees is computed on the basis of the return on Israeli government bonds with the addition of the average spread on corporate bonds rated AA (international) and above, at reporting date. For practical considerations, the spread is determined according to the difference between the rates of return to maturity, according to maturity periods, on US corporate bonds rated AA and above, and the rates of return to maturity, for the same maturity periods, on US government bonds, everything at date of reporting.

The Bank follows the guidelines of the Supervisor of Banks regarding internal control over the financial reporting process in the matter of employee rights, including the matter of examining a "commitment in substance" to grant its employees benefits in respect of enlarged severance compensation.

Post-retirement benefits - defined deposit plan

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, and defines the manner of deposits made to the account of the employee instead of determining the amount of benefits to be paid to the employee. In the post-retirement defined deposit plan, the benefits that the participant in the plan would receive are dependent only on the amount deposited into the account of the participant in the plan, on the return accumulated of the assets of such deposits, and on the forfeiture of benefits of other participants that might be allocated to the account of that participant.

Where it is required that the defined deposits of a plan to the account of a person shall be made for periods in which this person provides services, the net cost of pension or the net cost of other post-retirement benefit for the period, shall be the required deposit for that period.

The commitment of the Bank for the payment of severance compensation in accordance with Section 14 of the Severance Compensation Act is treated as a defined deposit plan.

Other post-retirement benefits

The Bank recognizes the non-discounted amount of the current benefit at the date of granting the service. In addition, the Bank accumulates the liability during the relevant period, which is determined in accordance with the rules applying to other post-retirement benefits.

Paid leave of absence

The Bank accumulates a liability in respect of compensation of employees during future periods of leave of absence, if all the following conditions exist: (a) the commitment of the Bank regarding the right of employees to receive compensation in respect of future periods of leave of absence is attributed to services already provided by the employees; (b) the commitment relates to vesting or accumulated rights; (c) payment of the compensation is expected; (d) the amount may be reasonably estimated.

Vacation - the Bank accumulates the liability over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are not taken into account. All components of the cost of the benefit for the period are immediately recognized in profit and loss.

Sick leave - no liability is being accumulated in respect of paid sick leave.

Award payable at termination of employment in respect of unutilized sick leave

The Bank accumulates this liability as leave of absence entitled to compensation over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss. In determining the discounting rate of interest and the manner of allocation to periods of cost of the service, the Bank applies the rules applying to defined benefits pension plans, with the required modifications.

Other long-term benefits to active employees - seniority awards

The liability is accumulated over the period entitling to the benefit. For the purpose of computing the liability in respect of such benefit, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss.

(16) Contingent Liabilities

The financial statements include appropriate provisions for claims, in accordance with assessments of Management based on opinions of its legal advisors. The disclosure format is in accordance with directives of the Supervisor of Banks, which classify claims submitted against the Bank into three groups:

1. Probable - prospects of risk materializing is of over 70%. A provision is included in the financial statements in respect of a claim classified under this group.
2. Reasonably possible - prospects of risk materializing is between 20% and 70%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.
3. Remote - prospects of risk materializing is below 20%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.

A claim, in respect of which the Supervisor of Banks determined that the Bank is required to refund amounts, is classified as "probable" and a provision therefore is included in the financial statements in the amount required to be refunded.

In rare cases, where Management, based on opinion of its legal advisors, decides that it is not possible to assess the prospects of a risk exposure materializing with respect to an ordinary law suit and to a suit approved as a class action suit, therefore, the Bank does not include a provision in this respect.

Note 25 regarding contingent liabilities and special commitments contains a quantitative disclosure regarding all exposures, the probability of their materializing is not remote and in respect of which a provision is not included. Furthermore, disclosure is provided in respect of any claim the amount of which exceeds 1% of the equity of the Bank. Disclosure is also provided in respect of claims, the results of which cannot be estimated at this stage, and which amount exceed 0.5% of the equity of the Bank.

(17) Guaranties

A guaranty constitutes a contract contingently requiring the guarantor to make payments to the guarantee when conditions which require the realization of the guaranty materialize. A liability in respect of a guaranty is recognized in the books in the amount of its fair value, even if it is not expected that the guaranty would be realized in the future. In cases where upon initial recognition, the Bank is required to recognize a provision for a contingent loss in respect of a guaranty, in accordance with Item 450 of the Codification, the liability in respect of the guaranty is measured at date of initial recognition at the higher of the fair value and the amount of the provision according to the rules of Item 450 of the Codification.

The liability is removed from the books at date on which the Bank is released from the risk. The date of release from risk in respect of the guaranty depends on the substance of the guaranty. In general, the Bank removes the liability on date of settlement of the liability. Where the guarantee is measured at date of initial recognition in accordance with the rules of Item 450 of the Codification, the following measurement is also performed in accordance with the rules of Item 450 of the Codification.

The rules with respect to the recognition and measurement at date of initial recognition do not apply to guaranties issued between a parent company and a subsidiary, between two sister companies or between the owner of a company and the company.

(18) Income Tax Expense

The financial statements of the Bank include current and deferred taxes.

The provisions for taxes on the income of the Bank and of its consolidated subsidiaries, which are considered "financial institutions", for value added tax purposes include profit tax levied on income according to the VAT law. Value added tax levied on payroll of financial institutions is included in the item "Salaries and related expenses".

The Bank allocates the tax expense or the tax benefits between continuing operations, discontinued operations, other comprehensive income and other items directly recognized in equity.

Current taxes

Current taxes are the amount of taxes on income paid or payable (or refundable) in respect of the current period, as determined by the tax laws enacted with respect to taxable income. The current tax expense includes also changes in tax payments relating to prior years.

Deferred taxes

Deferred tax liabilities and deferred tax assets represent the future implications on taxes on income stemming from temporary differences and carry forward losses at end of a period.

The Bank recognizes deferred tax liabilities with respect to all taxable temporary differences except for the following temporary difference: retained earnings of a domestic subsidiary, which in substance are for a permanent period of time; and differences stemming from intercompany transactions.

The Bank recognizes deferred tax assets in respect of all tax-deductible temporary differences and carry forward losses, and concurrently recognizes a separate valuation allowance in respect of that amount included in the value of an asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assets by the amount of any tax benefits that are not expected to be realized, based on available evidence - both positive evidences supporting recognition of a deferred tax asset and the negative evidences supporting the creation of a valuation allowance in respect of a deferred tax asset, in order to determine whether a net deferred tax asset should be recognized.

Deferred tax liabilities or deferred tax assets are measured using the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.

The Bank classifies interest income and expenses with respect to taxes on income and penalties payable to the Tax Authorities to the Item "Taxes on income".

Offsetting deferred tax assets and liabilities

The Bank offsets all deferred tax assets against all deferred tax liabilities as well as all valuation allowances related to a particular taxable component and within the jurisdiction of a particular tax authority.

Uncertain tax positions

The Bank applies the recognition, measurement and disclosure rules stated within the framework of FIN 48. In accordance with these rules, the Bank recognizes the effect of tax positions only if it is more likely than not that the positions would be approved by the tax authorities or the Court. Recognized tax positions are measured according to the maximum amount having realization prospects of over 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances have led to changes in judgment.

(19) Earnings per share

The Group presents basic per share data in respect of its ordinary share capital. The amount of basic per share earnings or loss, attributed to the ordinary shareholders of the Bank is computed by dividing the amount of earnings or loss by the weighted average number of ordinary shares outstanding during the reported period.

(20) Segment Reporting

(a) **Regulatory segments of operation**

A regulatory business segment is a component in the banking corporation that engages in certain operations or combines customers in specific classifications, defined by the Supervisor of Banks. The format of reporting on the regulatory segments of operation of the Bank was set in the Public Reporting Directives of the Supervisor of Banks. A regulatory business segment is generally defined based on the classification of customers. Private customers are classified according to their volume of financial assets to the household segment or to the private banking segment. Customers, other than private individuals, are mostly classified according to the volume of their operations to business segments (differentiating between minute and small businesses, middle market and corporate businesses), institutional bodies and the financial management segment. In addition, the Bank is required to implement the disclosure requirements regarding business segments according to Management's approach, where the business segments according to this approach differ significantly from the regulatory business segments.

(b) **Segments of operation according to Management's approach**

In addition to the uniform reporting in accordance with regulatory segments of operation, the letter requires disclosure on segments of operation according to Management's approach in accordance with accounting principles accepted by US banks in the matter of business segments (included in ASC 280) (see note 28A to the report).

A business segment defined in accordance with Management's approach is a component of a banking corporation engaged in operations that may produce income and incur expenditure; the results of its operations are being reviewed on a regular basis by Management and the Board of Directors in order to evaluate its performance and make decisions as to the allocation of resources to it; and in respect of which separate financial data is available.

The classification of business segments at the Bank is based on the characterization of customer segments. Such segments include also banking products.

(21) Transactions with controlling parties

The bank implements US accepted accounting principles for the accounting treatment of transactions between a banking corporation and its controlling party and between companies under the control of the banking corporation. In cases where the said principles contain no reference to the manner of treatment, the Bank applies the principles determined in Standard 23 of the Israeli Accounting Standards Institute regarding the accounting treatment of transactions between an entity and its controlling party.

Assets and liabilities, being the subject of a transaction with a controlling party, are measured at fair value at date of the transaction. Due to the fact that the transaction in question is made at a capital level, the Group reflects in equity the difference between the fair value and the proceeds of the transaction.

E. NEW ACCOUNTING STANDARDS AND NEW DIRECTIVES OF THE SUPERVISOR OF BANKS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

Update of Standard ASU 2022-02 in the matter of restructure of troubled debts and disclosure requirements according to the year of granting the credit

On March 31, 2022, the US Accounting Standards Board (FASB) published ASU 2022-02 in the matter of restructure of troubled debts and disclosure requirements according to the year of granting the credit with respect to allowances for credit losses (hereinafter – "the update"). The update abolishes the instructions concerning restructure of troubled debts by lenders, while improving the disclosure requirements regarding borrowers found in financial difficulties. In addition, the update adds disclosure requirements regarding gross write-offs according to the year of granting the credit.

The provisions of the update apply to entities that had adopted the update of Standard 2016-13, with respect to annual and interim periods beginning after December 15, 2022. Other entities shall apply the provisions of the update at date of initial application of the update of Standard 2016-13.

At this stage, no date has as yet been fixed for the beginning of the application by banks in Israel.

The Bank is studying the requirements of the Standard and the effect of the new instructions on its financial statements.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

Composition:

		Consolidated			The Bank		
		For the year ended December 31			For the year ended December 31		
		2022	**2021**	**2020**	**2022**	**2021**	**2020**
A.	**Interest income (expenses)** (1)						
	From credit to the public	**4,350**	2,995	2,702	**4,052**	2,764	2,473
	From credit to the Government	**30**	13	(4)	**-**	-	-
	From deposits with banks	**24**	-	5	**42**	5	3
	From deposits with Bank of Israel and from cash	**542**	47	49	**531**	46	48
	From securities which were borrowed	**5**	1	-	**5**	1	-
	From bonds	**210**	94	126	**203**	91	123
	Total interest income	**5,161**	3,150	2,878	**4,833**	2,907	2,647
B.	**Interest expenses**						
	On deposits from the public	**1,112**	237	202	**1,169**	261	190
	On deposits from the Government	**2**	2	3	**2**	2	3
	On deposits from banks	**10**	1	1	**48**	21	16
	On deposits with Bank of Israel	**3**	2	1	**3**	2	1
	On bonds and subordinated capital notes	**229**	113	33	**115**	71	42
	On other liabilities	**2**	1	1	**2**	1	1
	Total interest expenses	**1,358**	356	241	**1,339**	358	253
	Total interest income, net	**3,803**	2,794	2,637	**3,494**	2,549	2,394
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**						
	Interest expenses(2)	**(6)**	(48)	(36)	**(6)**	(47)	(35)
D.	**Details of interest income from bonds on cumulative basis**						
	Held to maturity	**58**	39	31	**58**	39	31
	Available for sale	**150**	54	95	**143**	51	92
	Held for trading	**2**	1	-	**2**	1	-
	Total included in interest income	**210**	94	126	**203**	91	123

(1) Including effect of hedging relations.
(2) Details of effect of hedging derivative instruments on subsection (A).

NOTE 3 - NON-INTEREST FINANCING INCOME
(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2022	2021	2020	2022	2021	2020
A. Non-interest financing income (expenses) in respect of non-trading activities						
1. From activity in derivative instruments						
Total from activity in derivative instruments(1)	**1,516**	(485)	(694)	**1,513**	(485)	(694)
2. From investments in bonds						
Gains from sale of bonds available for sale(2)	**7**	24	39	**6**	21	39
Losses from sale of bonds available for sale(2)	**(12)**	(1)	(12)	**(12)**	(1)	(12)
Provision for impairment of available-for-sale bonds(2)	**(29)**	-	(3)	**(29)**	-	(3)
Total from investment in bonds	**(34)**	23	24	**(35)**	20	24
3. Net exchange differences	**(1,408)**	489	794	**(1,406)**	490	794
4. From investment in shares						
Gains from sale of shares not for trading	**8**	72	10	**8**	72	10
Losses from sale of shares not for trading	**(20)**	(6)	(14)	**(20)**	(6)	(14)
Dividend from shares not for trading	**29**	40	16	**29**	40	16
Unrealized gains (losses)(3)	**(79)**	125	(11)	**(79)**	125	(11)
Total from investment in shares	**(62)**	231	1	**(62)**	231	1
Total non-interest financing income in respect of non-trading activities	**12**	258	125	**10**	256	125

(1) Excluding effect of hedging relations.
(2) Reclassified from other comprehensive income.
(3) Including profits and losses from measurement according to fair value of shares in respect of which fair value exist and adjustment of shares in respect of which fair value does not exist.

NOTE 3 - NON-INTEREST FINANCING INCOME (CONT'D)

(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2022	2021	2020	2022	2021	2020
B. Net income (expenses) in respect of non-interest financing activity for trading[3]						
Net income in respect of other derivative instruments	**100**	45	22	**100**	45	22
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[1]	**3**	(2)	4	**3**	(2)	4
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading[2]	**(2)**	2	(3)	**(2)**	2	(3)
Total non-interest financing income from trading activities[4]	**101**	45	23	**101**	45	23
Total non-interest financing income	**113**	303	148	**111**	301	148
Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure						
Interest rate exposure	**20**	17	7	**20**	17	7
Foreign currency exposure	**75**	20	12	**75**	20	12
Exposure to shares	**6**	8	4	**6**	8	4
Total	**101**	45	23	**101**	45	23

(1) Of which: No gains/losses in respect of trading bonds on hand at balance sheet date (2021 - No gains/losses, 2020 - profit in the amount of NIS 1 million).
(2) No gains/losses in respect of trading shares on hand at balance sheet date.
(3) Including exchange differences arising from trading activity.
(4) See Note 2 for details on income from investment in trading bonds.

NOTE 4A - FEES

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2022	2021	2020	2022	2021	2020
Account management	**214**	206	208	**192**	184	186
Credit cards	**128**	119	101	**114**	106	90
Securities and certain derivative instruments activity	**509**	531	505	**494**	513	488
Financial products distribution commissions[1]	**132**	131	110	**126**	124	105
Management, operation and trust to institutional entities	**103**	98	93	**27**	26	33
Credit handling	**19**	18	15	**17**	16	14
Conversion differences	**195**	168	173	**190**	164	169
Foreign-trade activity	**43**	42	41	**42**	41	41
Commissions from financing activities	**98**	82	79	**96**	79	75
Other fees	**48**	49	46	**33**	32	33
Total Fees	**1,489**	1,444	1,371	**1,331**	1,285	1,234

(1) Mutual and provident funds distribution fees.

NOTE 4B - INCOME FROM CONTRACTS WITH CUSTOMERS

(NIS million)

Following is the reconciliation of the income divided to segments of activity according to Management approach:

Consolidated	For the year ended December 31, 2022					
	Banking Division	Corporate Division	Customer Asset Division	Subsidiary companies	Adjustments	Total
Account management	**172**	**33**	**7**	**22**	**(20)**	**214**
Credit cards	**111**	**5**	**2**	**14**	**(4)**	**128**
Securities and certain derivative instruments activity	**323**	**148**	**494**	**21**	**(477)**	**509**
Financial products distribution commissions(1)	**124**	**4**	**126**	**7**	**(129)**	**132**
Management, operation and trust to institutional entities	**-**	**-**	**103**	**-**	**-**	**103**
Credit handling	**4**	**14**	**-**	**14**	**(13)**	**19**
Conversion differences	**95**	**82**	**190**	**5**	**(177)**	**195**
Foreign-trade activity	**24**	**27**	**2**	**1**	**(11)**	**43**
Commissions from financing activities	**23**	**83**	**2**	**3**	**(13)**	**98**
Other fees	**36**	**7**	**1**	**7**	**(3)**	**48**
Total Fees from contracts with customers	**912**	**403**	**927**	**94**	**(847)**	**1,489**

Consolidated	For the year ended December 31, 2021					
	Banking Division	Corporate Division	Customer Asset Division	Subsidiary companies	Adjustments	Total
Account management	166	31	5	22	(18)	206
Credit cards	103	4	2	14	(4)	119
Securities and certain derivative instruments activity	365	114	513	23	(484)	531
Financial products distribution commissions(1)	123	4	124	6	(126)	131
Management, operation and trust to institutional entities	-	-	98	-	-	98
Credit handling	4	13	-	14	(13)	18
Conversion differences	87	64	164	4	(151)	168
Foreign-trade activity	24	27	1	1	(11)	42
Commissions from financing activities	23	66	2	3	(12)	82
Other fees	37	6	1	7	(2)	49
Total Fees from contracts with customers	932	329	910	94	(821)	1,444

Consolidated	For the year ended December 31, 2020					
	Banking Division	Corporate Division	Customer Asset Division	Subsidiary companies	Adjustments	Total
Account management	167	32	6	22	(19)	208
Credit cards	89	4	1	10	(3)	101
Securities and certain derivative instruments activity	345	113	488	21	(462)	505
Financial products distribution commissions(1)	104	3	105	5	(107)	110
Management, operation and trust to institutional entities	-	-	93	-	-	93
Credit handling	2	11	-	11	(9)	15
Conversion differences	77	68	170	4	(146)	173
Foreign-trade activity	24	27	1	1	(12)	41
Commissions from financing activities	23	63	1	3	(11)	79
Other fees	37	6	1	6	(4)	46
Total Fees from contracts with customers	868	327	866	83	(773)	1,371

(1) Mutual and provident funds distribution fees.

NOTE 5 - OTHER INCOME
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Capital gains from the sale of building and equipment	**8**	7	-	**8**	2	-
Other	**1**	2	4	**58**	47	45
Total other income	**9**	9	4	**66**	49	45

NOTE 6 - SALARIES AND RELATED EXPENSES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Salaries	**1,180**	1,110	1,027	**1,101**	1,034	956
Other related expenses including study funds, vacation and sick days	**111**	118	127	**107**	114	122
Long-term benefits	**(4)**	(6)	1	**(4)**	(6)	1
National insurance and VAT on salaries	**283**	276	274	**262**	256	256
Pension expenses (including severance pay and allowances)(1):						
Defined benefit - cost of service	**23**	17	18	**17**	13	15
Defined deposit	**71**	70	71	**67**	66	67
Other post-employment benefits and non-pension post-retirement benefits(1)(2)	**16**	16	14	**14**	14	12
Total salaries and related expenses	**1,680**	1,601	1,532	**1,564**	1,491	1,429

(1) See note 23 regarding "employees benefits".
(2) Of which: cost of service in respect of other post-employment benefits and post-retirement benefit, which are not pension in the amount of NIS 5 million and NIS 4 million consolidated and the bank, respectively (2021 and 2020 - amounted to NIS 5 million and NIS 4 million, consolidated and the Bank, respectively).

NOTE 7 - OTHER EXPENSES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Pension expenses (including severance pay and allowances), defined benefit (excluding cost of service)	**35**	28	24	**34**	28	24
Reductions, Dismissals(1)	**3**	36	26	**3**	36	24
Marketing and advertising	**56**	50	47	**48**	43	41
Communications	**60**	58	63	**58**	56	61
Computer	**139**	130	127	**136**	127	124
Office	**7**	8	10	**6**	7	9
Insurance	**18**	13	8	**16**	12	7
Legal, audit and consultancy	**53**	54	49	**40**	40	39
Directors' fees and fees for participation in meetings	**8**	6	5	**6**	4	4
Professional instruction and training	**3**	3	2	**3**	3	2
Commissions	**152**	150	155	**163**	161	162
Other	**96**	70	81	**91**	67	73
Total other expenses	**630**	606	597	**604**	584	570

(1) See note 23 regarding "employees benefits".

NOTE 8 - PROVISION FOR TAXES ON PROFIT
(NIS million)

A. COMPOSITION:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Current taxes in respect of the current year	**948**	674	552	**861**	604	497
Current taxes in respect of prior years	**(4)**	(9)	(40)	**(4)**	(9)	(38)
Total current taxes	**944**	665	512	**857**	595	459
Addition (deduction):						
Deferred taxes in respect of the current year	**(58)**	64	(144)	**(54)**	62	(144)
Deferred taxes in respect of prior years	**(2)**	(1)	-	**(2)**	(1)	-
Total deferred taxes*	**(60)**	63	(144)	**(56)**	61	(144)
Total provision for taxes	**884**	728	368	**801**	656	315
(*) Deferred taxes						
Expenses (income) of deferred taxes before effect of items detailed below	**(60)**	63	(145)	**(56)**	61	(145)
Decrease from carry forward losses	**-**	-	1	**-**	-	1
Total deferred taxes	**(60)**	63	(144)	**(56)**	61	(144)

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

(NIS million)

B. RECONCILIATION OF PROVISION FOR TAXES TO THE THEORETICAL TAX EXPENSE

The following is a reconciliation between the theoretical tax which would have been payable had the operating earnings been chargeable to tax at the statutory rate prevailing on banks in Israel and the adjusted tax provision on ordinary operating earnings as reported in the statement of income:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Profit before taxes	**2,536**	2,114	1,127	**2,299**	1,906	969
Prevailing tax rate	**34.2%**	34.2%	34.2%	**34.2%**	34.2%	34.2%
Tax at the prevailing tax rate	**867**	723	385	**786**	651	331
Tax (saving) in respect of:						
Non-deductible expenses	**15**	10	12	**12**	8	10
Adjustment of statutory tax rate to the tax rate applicable on income of consolidated companies	**-**	-	-	**1**	1	1
Additional amounts to be paid in respect of non-accruing debts	**11**	7	9	**11**	7	9
Exempt income for tax purposes	**-**	(1)	-	**-**	(1)	-
Adjustment and differences of depreciation and capital gain	**(1)**	-	1	**(1)**	1	1
Taxes in respect of prior years	**(6)**	(10)	(40)	**(6)**	(10)	(38)
Other differences	**(2)**	(1)	1	**(2)**	(1)	1
Provision for taxes on profit	**884**	728	368	**801**	656	315

C. TAX ASSESSMENTS AND ADDITIONAL MATTERS RELATING TO THE PROVISION FOR TAXES

(1) In March 2020, the Bank received final tax assessments for the tax years 2014-2017.

(2) The investee companies have final tax assessments up to and including the tax year 2017.

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

D. DETAILS OF DEFERRED TAX ASSETS AND LIABILITIES – CONSOLIDATED

	For the year ended December 31, 2022					
	Balance as at December 31, 2021	**Changes allocated to profit and loss**	**Changes allocated to comprehensive profit**	**Changes allocated to capital**	**Balance as at December 31, 2022**	**Average tax rate 2022**
Deferred tax assets						
Provision for credit losses	**335**	**50**	**-**	**25**	**410**	**34.2%**
Provision for vacation pay and other benefits to employees	**130**	**(19)**	**-**	**-**	**111**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**246**	**35**	**(76)**	**-**	**205**	**34.2%**
Balance of deferred tax assets, gross	**711**	**66**	**(76)**	**25**	**726**	
Provision for deferred tax asset	**-**	**-**	**-**	**-**	**-**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**711**	**66**	**(76)**	**25**	**726**	
Balance of available for setoff against deferred tax assets					**(96)**	
					630	
Deferred tax liabilities						
Adjustment of depreciable non-monetary assets	**71**	**2**	**-**	**-**	**73**	**34.2%**
Investments in affiliates	**67**	**-**	**-**	**-**	**67**	**11.2%**
Balance of deferred tax liability, gross	**138**	**2**	**-**	**-**	**140**	
Balance of available for setoff against deferred tax liabilities					**(96)**	
					44	
Balance of deferred tax assets, net	**573**				**586**	

	For the year ended December 31, 2021				
	Balance as at December 31, 2020	**Changes allocated to profit and loss**	**Changes allocated to comprehensive profit**	**Balance as at December 31, 2021**	**Average tax rate 2021**
Deferred tax assets					
Provision for credit losses	405	(70)	-	335	34.2%
Provision for vacation pay and other benefits to employees	132	(2)	-	130	34.2%
Excess liabilities in respect of employee benefits over assets of the scheme	220	18	8	246	34.2%
Carry forward loss for tax purposes	1	(1)	-	-	23.0%
Other	1	(1)	-	-	34.2%
Balance of deferred tax assets, gross	759	(56)	8	711	
Provision for deferred tax asset	(1)	1	-	-	
Balance of deferred tax assets after deduction of provision for deferred taxes	758	(55)	8	711	
Balance of available for setoff against deferred tax assets				(94)	
				617	
Deferred tax liabilities					
Adjustment of depreciable non-monetary assets	68	3	-	71	34.2%
Investments in affiliates	53	14	-	67	11.2%
Balance of deferred tax liability, gross	121	17	-	138	
Balance of available for setoff against deferred tax liabilities				(94)	
				44	
Balance of deferred tax assets, net	637	(72)	8	573	

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

D. DETAILS OF DEFERRED TAX ASSETS AND LIABILITIES - THE BANK

	For the year ended December 31, 2022					
	Balance as at December 31, 2021	**Changes allocated to profit and loss**	**Changes allocated to comprehensive profit**	**Changes allocated to capital**	**Balance as at December 31, 2022**	**Average tax rate 2022**
Deferred tax assets						
Provision for credit losses	**314**	**46**	**-**	**21**	**381**	**34.2%**
Provision for vacation pay and other benefits to employees	**128**	**(19)**	**-**	**-**	**109**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**233**	**35**	**(73)**	**-**	**195**	**34.2%**
Balance of deferred tax assets, gross	**675**	**62**	**(73)**	**21**	**685**	
Provision for deferred tax asset	**-**	**-**	**-**	**-**	**-**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**675**	**62**	**(73)**	**21**	**685**	
Balance of available for setoff against deferred tax assets					**(96)**	
					589	
Deferred tax liabilities						
Adjustment of depreciable non-monetary assets	**71**	**2**	**-**	**-**	**73**	**34.2%**
Investments in affiliates	**67**	**-**	**-**	**-**	**67**	**11.2%**
Balance of deferred tax liability, gross	**138**	**2**	**-**	**-**	**140**	
Balance of available for setoff against deferred tax liabilities					**(96)**	
					44	
Balance of deferred tax assets, net	**537**				**545**	

	For the year ended December 31, 2021				
	Balance as at December 31, 2020	**Changes allocated to profit and loss**	**Changes allocated to comprehensive profit**	**Balance as at December 31, 2021**	**Average tax rate 2021**
Deferred tax assets					
Provision for credit losses	383	(69)	-	314	34.2%
Provision for vacation pay and other benefits to employees	129	(1)	-	128	34.2%
Excess liabilities in respect of employee benefits over assets of the scheme	209	17	7	233	34.2%
Carry forward loss for tax purposes	1	(1)	-	-	23.0%
Balance of deferred tax assets, gross	722	(54)	7	675	
Provision for deferred tax asset	(1)	1	-	-	
Balance of deferred tax assets after deduction of provision for deferred taxes	721	(53)	7	675	
Balance of available for setoff against deferred tax assets				(94)	
				581	
Deferred tax liabilities					
Adjustment of depreciable non-monetary assets	68	3	-	71	34.2%
Investments in affiliates	53	14	-	67	11.2%
Balance of deferred tax liability, gross	121	17	-	138	
Balance of available for setoff against deferred tax liabilities				(94)	
				44	
Balance of deferred tax assets, net	600	(70)	7	537	

E. See Note 10B regarding taxes on income recognized outside profit and loss.

NOTE 9 - PROFIT PER SHARE

The number of par value of shares used to calculate the primary earnings per share:

	Number of shares for the years 2022, 2021 and 2020
Shares of NIS 0.05 par value	**100,330,040**

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

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

	Other comprehensive income (loss) before attribution to non-controlling interests				
	Adjustment in respect of reporting available for sale bonds in fair value[3]	Adjustments in respect of employee benefits	Total	Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
Balance as of January 1, 2020	53	(199)	(146)	(15)	(131)
Net changes during the year	(3)	(49)	(52)	-	(52)
Balance as of January 1, 2021	50	(248)	(198)	(15)	(183)
Net changes during the year	18	(16)	2	-	2
Balance as of January 1, 2022	68	(264)	(196)	(15)	(181)
Net changes during the year	**(290)**	**155**	**(135)**	**(13)**	**(122)**
Balance as of December 31, 2022	**(222)**	**(109)**	**(331)**	**(28)**	**(303)**

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

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

	For the year ended December 31, 2022			For the year ended December 31, 2021			For the year ended December 31, 2020		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to non-controlling interests									
Adjustments in respect of available for sale bonds presentation according to fair value									
Unrealized net gains (losses) from adjustments to fair value	**(767)**	**262**	**(505)**	(81)	28	(53)	122	(42)	80
Losses (gains) in respect of available for sale bonds reclassified to income statement[1]	**326**	**(111)**	**215**	108	(37)	71	(126)	43	(83)
Net changes during the year	**(441)**	**151**	**(290)**	27	(9)	18	(4)	1	(3)
Employee benefits:									
Net actuarial gain (loss)	**216**	**(73)**	**143**	(82)	28	(54)	(118)	41	(77)
Net losses reclassified to the income statement[2]	**19**	**(7)**	**12**	58	(20)	38	44	(16)	28
Net change during the year	**235**	**(80)**	**155**	(24)	8	(16)	(74)	25	(49)
Changes in the components of cumulative other comprehensive loss attributed to non-controlling interests									
Total changes during the year	**(20)**	**7**	**(13)**	-	-	-	-	-	-
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total changes during the year	**(186)**	**64**	**(122)**	3	(1)	2	(78)	26	(52)

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.
(2) The amount before tax is reported in the statement of income in the item of expenses in respect of employee benefits, see note 23.

NOTE 11 - CASH AND DEPOSITS WITH BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
Cash and deposits with Central banks	**54,320**	54,760	**53,180**	53,605
Deposits with commercial banks	**2,810**	2,610	**3,223**	2,996
Total [1]	**57,130**	57,370	**56,403**	56,601
(1) Includes cash and deposits with banks, the initial period of which does not exceed three months	**55,423**	55,992	**54,269**	54,815

NOTE 12 - SECURITIES

(NIS million)

COMPOSITION:

						Consolidated
						December 31, 2022
A. Debentures held to maturity	Book value	Amortized cost	Provision for credit losses	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	2,941	2,941	-	-	179	2,762
Of financial institutions in Israel	89	89	-	-	4	85
Of others in Israel	(5)108	108	-	5	-	113
Total debentures held to maturity	3,138	3,138	-	5	183	2,960

B. Bonds available for sale	Book value	Amortized cost	Provision for credit losses	Cumulative other comprehensive income		Fair value (1)
				Profits	Losses	
Of Israeli government	8,041	8,303	-	47	309	8,041
Of foreign governments	3,683	3,722	-	-	39	3,683
Of financial institutions in Israel	228	247	-	-	19	228
Of foreign financial institutions	(6)360	372	-	1	13	360
Of others in Israel	61	65	-	-	4	61
Of foreign others	28	28	-	-	-	28
Total bonds available for sale	12,401	12,737	-	(2)48	(2)384	12,401

C. Investment in not for trading shares	Book value	cost	Provision for credit losses	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1) (4)
Not for trading shares	444	389	-	(3)65	(3)10	444
Of which: shares, the fair value of which is not ready determinable	204	198	-	(3)6	(3)-	204
Total not for trading securities	15,983	16,264	-	118	577	15,805

D. Securities held for trading	Book value	Amortized cost	Provision for credit losses	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government bonds	26	26	-	-	-	26
Shares	1	1	-	-	-	1
Total trading securities	27	27	-	-	-	27
Total securities	16,010	16,291	-	118	577	15,832

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding the pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issuer.

(5) Including non-accruing bonds accruing interest income in amount of NIS 6 million.

(6) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 18 million.

NOTE 12 - SECURITIES (CON'T)

(NIS million)

					Consolidated
					December 31, 2021
A. Debentures held to maturity	Book value	Amortized cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	2,277	2,277	81	4	2,354
Of financial institutions in Israel	54	54	1	-	55
Of others in Israel	(5)157	157	20	-	177
Total debentures held to maturity	2,488	2,488	102	4	2,586

B. Bonds available for sale	Book value	Amortized cost	Cumulative other comprehensive income: Profits	Cumulative other comprehensive income: Losses	Fair value (1)
Of Israeli government	9,691	9,589	102	-	9,691
Of foreign governments	1,342	1,345	-	3	1,342
Of financial institutions in Israel	84	84	-	-	84
Of foreign financial institutions	(6)244	244	1	1	244
Of others in Israel	206	200	6	-	206
Of foreign others	72	72	-	-	72
Total bonds available for sale	11,639	11,534	(2)109	(2)4	11,639

C. Investment in not for trading shares	Book value	cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1) (4)
Not for trading shares	731	537	(3)195	(3)1	731
Of which: shares, the fair value of which is not ready determinable	166	149	(3)17	(3)-	166
Total not for trading securities	14,858	14,559	406	9	14,956

D. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Bonds of Israeli government	232	230	2	-	232
Shares	1	1	-	-	1
Total trading securities	233	231	(3)2	(3)-	233
Total securities	15,091	14,790	408	9	15,189

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding the pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issuer.

(5) Including non-accruing bonds accruing interest income in amount of NIS 3 million.

(6) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 17 million.

NOTE 12 - SECURITIES (CON'T)

(NIS million)

COMPOSITION:

	The Bank					
	December 31, 2022					
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Provision for credit losses**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government	**2,804**	**2,804**	**-**	**-**	**166**	**2,638**
Of financial institutions in Israel	**89**	**89**	**-**	**-**	**4**	**85**
Of others in Israel	(5)**107**	**107**	**-**	**5**	**-**	**112**
Total debentures held to maturity	**3,000**	**3,000**	**-**	**5**	**170**	**2,835**

B. Bonds available for sale	**Book value**	**Amortized cost**	**Provision for credit losses**	**Cumulative other comprehensive income**		**Fair value** (1)
				Profits	**Losses**	
Of Israeli government	**7,437**	**7,659**	**-**	**46**	**268**	**7,437**
Of foreign governments	**3,683**	**3,722**	**-**	**-**	**39**	**3,683**
Of financial institutions in Israel	**175**	**190**	**-**	**-**	**15**	**175**
Of foreign financial institutions	(6)**360**	**372**	**-**	**1**	**13**	**360**
Of others in Israel	**61**	**65**	**-**	**-**	**4**	**61**
Of foreign others	**28**	**28**	**-**	**-**	**-**	**28**
Total bonds available for sale	**11,744**	**12,036**	**-**	(2)**47**	(2)**339**	**11,744**

C. Investment in not for trading shares	**Book value**	**cost**	**Provision for credit losses**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1) (4)
Not for trading shares	**444**	**389**	**-**	(3)**65**	(3)**10**	**444**
Of which: shares, the fair value of which is not ready determinable	**204**	**198**		(3)**6**	(3)**-**	**204**
Total not for trading securities	**15,188**	**15,425**	**-**	**117**	**519**	**15,023**

D. Securities held for trading	**Book value**	**Amortized cost**	**Provision for credit losses**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government bonds	**26**	**26**	**-**	**-**	**-**	**26**
Shares	**1**	**1**	**-**	**-**	**-**	**1**
Total trading securities	**27**	**27**	**-**	**-**	**-**	**27**
Total securities	**15,215**	**15,452**	**-**	**117**	**519**	**15,050**

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding the pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issuer.

(5) Including non-accruing bonds accruing interest income in amount of NIS 6 million.

(6) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 18 million.

NOTE 12 - SECURITIES (CON'T)

(NIS million)

COMPOSITION:

	The Bank				
	December 31, 2021				
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government	2,133	2,133	80	4	2,209
Of financial institutions in Israel	54	54	1	-	55
Of others in Israel	(5)154	154	20	-	174
Total debentures held to maturity	2,341	2,341	101	4	2,438

B. Bonds available for sale	**Book value**	**Amortized cost**	**Cumulative other comprehensive income**		**Fair value** (1)
			Profits	**Losses**	
Of Israeli government	9,130	9,033	97	-	9,130
Of foreign governments	1,342	1,345	-	3	1,342
Of financial institutions in Israel	49	49	-	-	49
Of foreign financial institutions	(6)244	244	1	1	244
Of others in Israel	206	200	6	-	206
Of foreign others	72	72	-	-	72
Total bonds available for sale	11,043	10,943	(2)104	(2)4	11,043

C. Investment in not for trading shares	**Book value**	**cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1) (4)
Not for trading shares	731	537	(3)195	(3)1	731
Of which: shares, the fair value of which is not ready determinable	166	149	(3)17	(3)-	166
Total not for trading securities	14,115	13,821	400	9	14,212

D. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Bonds of Israeli government	232	230	2	-	232
Shares	1	1	-	-	1
Total trading securities	233	231	(3)2	(3)-	233
Total securities	14,348	14,052	402	9	14,445

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding the pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issuer.

(5) Including non-accruing bonds accruing interest income in amount of NIS 3 million.

(6) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 17 million.

NOTE 12 - SECURITIES (CONT'D)

(NIS million)

E. FAIR VALUE AND UNREALIZED LOSSES, ACCORDING TO PERIOD AND RATE OF IMPAIRMENT OF AVAILABLE-FOR-SALE BONDS AND BONDS HELD FOR REDEMPTION BEING IN AN UNREALIZED LOSS POSITION

Consolidated								December 31, 2022
	Less than 12 months(1)				12 months and above(2)			
	Fair	Unrealized losses			Fair	Unrealized losses		
	Value	0-20%(3)	20-40%(4)	Total	Value	0-20%(3)	20-40%(4)	Total
Bonds held for redemption(5)								
Of Israeli Government	**2,466**	**139**	**-**	**139**	**296**	**21**	**19**	**40**
Of Israeli financial institutions	**62**	**4**	**-**	**4**	**-**	**-**	**-**	**-**
Total bonds held for redemption	**2,528**	**143**	**-**	**143**	**296**	**21**	**19**	**40**
Available for-sale bonds								
Of Israeli government	**4,288**	**175**	**-**	**175**	**1,631**	**134**	**-**	**134**
Of foreign governments	**3,064**	**37**	**-**	**37**	**619**	**2**	**-**	**2**
Of Israeli financial institutions	**228**	**19**	**-**	**19**	**-**	**-**	**-**	**-**
Of foreign financial institutions	**137**	**4**	**-**	**4**	**115**	**9**	**-**	**9**
Of others in Israel	**48**	**3**	**-**	**3**	**6**	**1**	**-**	**1**
Total bonds available for sale	**7,765**	**238**	**-**	**238**	**2,371**	**146**	**-**	**146**

								December 31, 2021
	Less than 12 months(1)				12 months and above(2)			
	Fair	Unrealized losses			Fair	Unrealized losses		
	Value	0-20%(3)	20-40%(4)	Total	Value	0-20%(3)	20-40%(4)	Total
Bonds held for redemption of Israel Government (5)	184	4	-	4	-	-	-	-
Available for-sale bonds								
Of foreign governments	1,342	3	-	3	-	-	-	-
Of foreign financial institutions	136	1	-	1	-	-	-	-
Total bonds available for sale	1,478	4	-	4	-	-	-	-

(1) Investments in an unrealized loss position less than 12 months.
(2) Investments in an unrealized loss position more than 12 months.
(3) Investments which their unrealized loss constitutes up to 20% of their amortized cost.
(4) Investments which their unrealized loss constitutes between 20% to 40% of their amortized cost.
(5) The amortized cost of the bonds held to maturity amounted to NIS 3,007 million (31.12.2021 - NIS 188 million).

Additional information regarding securities in loss position

Unrealized losses in bonds, at date of the report, are explained, almost completely, by the change in the interest environment and the increase in the yield of government bonds, in Israel and in the world. The credit risk in the portfolio, which is mostly comprised by government bonds, did not change during the reported period.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

1. DEBTS(1), BONDS HELD FOR REDEMPTION AND AVAILABLE FOR SALE, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

Consolidated	December 31, 2022					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks Governments and bonds	Total
Recorded balance:						
Debts examined on an individual basis	**51,216**	**-**	**389**	**51,605**	**19,217**	**70,822**
Debts examined on a collective basis	**6,933**	**35,474**	**23,144**	**65,551**	**-**	**65,551**
Total	**58,149**	**35,474**	**23,533**	**117,156**	**19,217**	**136,373**
Of which:						
Non-accruing debts	**303**	**145**	**96**	**544**	**-**	**544**
Debts in arrears of 90 days or more	**8**	**-**	**13**	**21**	**-**	**21**
Other problematic debts	**567**	**75**	**137**	**779**	**-**	**779**
Total problematic debts	**878**	**220**	**246**	**1,344**	**-**	**1,344**
Provision for credit losses:						
In respect of debts examined on an individual basis	**645**	**-**	**10**	**655**	**2**	**657**
In respect of debts examined on a collective basis	**72**	**145**	**323**	**540**	**-**	**540**
Total	**717**	**145**	**333**	**1,195**	**2**	**1,197**
Of which: non-accruing debts	**79**	**6**	**28**	**113**	**-**	**113**
Of which: other problematic debts	**96**	**3**	**31**	**130**	**-**	**130**

Consolidated	December 31, 2021*					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks Governments and bonds	Total
Recorded balance:						
Debts examined on an individual basis	41,141	-	380	41,521	17,548	59,069
Debts examined on a collective basis	6,206	32,260	22,253	60,719	-	60,719
Total	47,347	32,260	22,633	102,240	17,548	119,788
Of which:						
Non-accruing debts	338	-	103	441	-	441
Debts in arrears of 90 days or more	8	167	22	197	-	197
Other problematic debts	825	108	144	1,077	-	1,077
Total problematic debts	1,171	275	269	1,715	-	1,715
Provision for credit losses:						
In respect of debts examined on an individual basis	530	-	5	535	-	535
In respect of debts examined on a collective basis	72	159	310	541	-	541
Total	602	159	315	1,076	-	1,076
Of which: non-accruing debts	129	-	33	162	-	162
Of which: other problematic debts	150	34	23	207	-	207

* Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts.

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(CONT'D)
(NIS million)

1. DEBTS(1), BONDS HELD FOR REDEMPTION AND AVAILABLE FOR SALE, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

The Bank						December 31, 2022
	Credit to the public				Banks Governments and bonds	
	Commercial	Housing	Other private	Total		Total
Recorded balance:						
Debts examined on an individual basis	**50,194**	**-**	**389**	**50,583**	**18,127**	**68,710**
Debts examined on a collective basis	**6,853**	**35,474**	**18,109**	**60,436**	**-**	**60,436**
Total	**57,047**	**35,474**	**18,498**	**111,019**	**18,127**	**129,146**
Of which:						
Non-accruing debts	**282**	**145**	**73**	**500**	**-**	**500**
Debts in arrears of 90 days or more	**8**	**-**	**12**	**20**	**-**	**20**
Other problematic debts	**555**	**75**	**113**	**743**	**-**	**743**
Total problematic debts	**845**	**220**	**198**	**1,263**	**-**	**1,263**
Provision for credit losses:						
In respect of debts examined on an individual basis	**630**	**-**	**10**	**640**	**2**	**642**
In respect of debts examined on a collective basis	**71**	**145**	**259**	**475**	**-**	**475**
Total	**701**	**145**	**269**	**1,115**	**2**	**1,117**
Of which: non-accruing debts	**78**	**6**	**22**	**106**	**-**	**106**
Of which: other problematic debts	**94**	**3**	**26**	**123**	**-**	**123**

The Bank						December 31, 2021*
	Credit to the public				Banks Governments and bonds	
	Commercial	Housing	Other private	Total		Total
Recorded balance:						
Debts examined on an individual basis	40,225	-	380	40,605	16,428	57,033
Debts examined on a collective basis	6,127	32,260	17,607	55,994	-	55,994
Total	46,352	32,260	17,987	96,599	16,428	113,027
Of which:						
Non-accruing debts	316	-	77	393	-	393
Debts in arrears of 90 days or more	8	167	12	187	-	187
Other problematic debts	812	108	124	1,044	-	1,044
Total problematic debts	1,136	275	213	1,624	-	1,624
Provision for credit losses:						
In respect of debts examined on an individual basis	518	-	5	523	-	523
In respect of debts examined on a collective basis	71	159	257	487	-	487
Total	589	159	262	1,010	-	1,010
Of which: non-accruing debts	126	-	27	153	-	153
Of which: other problematic debts	145	34	19	198	-	198

* Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts.
(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(CONT'D)
(NIS million)

2. CHANGE IN PROVISION FOR CREDIT LOSSES

Consolidated	Credit to the public				Banks Governments and bonds	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses						
Balance of provision for credit losses as of December 31, 2019	591	121	275	987	-	987
Expenses in respect of credit losses	346	41	77	464	-	464
- Accounting write-offs	(143)	-	(122)	(265)	-	(265)
- Collection of debts written off accounting wise in previous years	87	2	88	177	-	177
Net accounting write-offs	(56)	2	(34)	(88)	-	(88)
Balance of provision for credit losses as of December 31, 2020	881	164	318	1,363	-	1,363
Expenses (income) in respect of credit losses	(212)	(6)	2	(216)	-	(216)
- Accounting write-offs	(94)	-	(84)	(178)	-	(178)
- Collection of debts written off accounting wise in previous years	95	1	90	186	-	186
Net accounting write-offs	1	1	6	8	-	8
Balance of provision for credit losses as of December 31, 2021	**670**	**159**	**326**	**1,155**	**-**	**1,155**
Adjustment of opening balance in respect of initial implementation*	**93**	**(34)**	**4**	**63**	**2**	**65**
Expenses in respect of credit losses	**81**	**25**	**17**	**123**	**-**	**123**
- Accounting write-offs	**(119)**	**(2)**	**(89)**	**(210)**	**-**	**(210)**
- Collection of debts written off accounting wise in previous years	**92**	**3**	**86**	**181**	**-**	**181**
Net accounting write-offs	**(27)**	**1**	**(3)**	**(29)**	**-**	**(29)**
Balance of provision for credit losses as of December 31, 2022	**817**	**151**	**344**	**1,312**	**2**	**1,314**
Of which: In respect of off-balance sheet credit instruments						
Balance of provision for credit losses as of December 31, 2020	72	-	14	86	-	86
Balance of provision for credit losses as of December 31, 2021	68	-	11	79	-	79
Balance of provision for credit losses as of December 31, 2022	**100**	**6**	**11**	**117**	**-**	**117**

* The effect of the initial implementation of Reporting to the Public Directives in respect of expected credit losses. For additional information see note 1.C. above.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(CONT'D)
(NIS million)

2. CHANGE IN PROVISION FOR CREDIT LOSSES

The Bank	Credit to the public				Banks Governments and bonds	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses						
Balance of provision for credit losses as of December 31, 2019	578	121	227	926	-	926
Expenses in respect of credit losses	341	41	61	443	-	443
- Accounting write-offs	(140)	-	(107)	(247)	-	(247)
- Collection of debts written off accounting wise in previous years	85	2	78	165	-	165
Net accounting write-offs	(55)	2	(29)	(82)	-	(82)
Balance of provision for credit losses as of December 31, 2020	864	164	259	1,287	-	1,287
Expenses (income) in respect of credit losses	(211)	(6)	4	(213)	-	(213)
- Accounting write-offs	(88)	-	(73)	(161)	-	(161)
- Collection of debts written off accounting wise in previous years	92	1	80	173	-	173
Net accounting write-offs	4	1	7	12	-	12
Balance of provision for credit losses as of December 31, 2021	**657**	**159**	**270**	**1,086**	**-**	**1,086**
Adjustment of opening balance in respect of initial implementation*	**91**	**(34)**	**(7)**	**50**	**2**	**52**
Expenses in respect of credit losses	**79**	**25**	**14**	**118**	**-**	**118**
- Accounting write-offs	**(119)**	**(2)**	**(75)**	**(196)**	**-**	**(196)**
- Collection of debts written off accounting wise in previous years	**90**	**3**	**76**	**169**	**-**	**169**
Net accounting write-offs	**(29)**	**1**	**1**	**(27)**	**-**	**(27)**
Balance of provision for credit losses as of December 31, 2022	**798**	**151**	**278**	**1,227**	**2**	**1,229**
Of which: In respect of off-balance sheet credit instruments						
Balance of provision for credit losses as of December 31, 2020	73	-	10	83	-	83
Balance of provision for credit losses as of December 31, 2021	68	-	8	76	-	76
Balance of provision for credit losses as of December 31, 2022	**97**	**6**	**9**	**112**	**-**	**112**

* The effect of the initial implementation of Reporting to the Public Directives in respect of expected credit losses. For additional information see note 1.C. above.

NOTE 14 - CREDIT TO THE GOVERNMENT
(NIS million)

Composition:	Consolidated		The Bank	
	December 31,		December 31,	
	2022	2021	2022	2021
Other credit to the Government	**866**	811	**158**	48

NOTE 15 - INVESTEE COMPANIES

(NIS million)

A. COMPOSITION:

	Consolidated		The Bank					
	December 31, 2022	December 31, 2021	December 31, 2022			December 31, 2021		
	Equity basis investee	Equity basis investee	Equity basis investee	Consolidated subsidiaries	Total	Equity basis investee	Consolidated subsidiaries	Total
Investments in shares on equity basis	**687**	713	**687**	**711**	**1,398**	713	633	1,346
Other investments:								
Capital notes and subordinated capital notes	**-**	-	**-**	**5**	**5**	-	5	5
Total investments in investee companies	**687**	713	**687**	**716**	**1,403**	713	638	1,351
Earnings accumulated since acquisition, net	**405**	449	**405**	**1,156**	**1,561**	449	1,065	1,514
Items accrued in equity capital since purchase date:								
Adjustments in respect of presenting available-for-sale bonds at fair value	**-**	-	**-**	**(15)**	**(15)**	-	1	1
Employee benefits	**(3)**	(12)	**(3)**	**(2)**	**(5)**	(12)	(5)	(17)
Other	**-**	-	**-**	**(4)**	**(4)**	-	-	-

B. THE BANK'S SHARE IN PROFITS OF EQUITY-BASIS INVESTEES:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2022	2021	2020	2022	2021	2020
						NIS millions
The Bank's share in operating profits of investee companies	**83**	78	33	**178**	164	100
Current taxes	**(13)**	-	-	**(13)**	-	-
Provision for deferred taxes	**4**	(9)	(4)	**4**	(9)	(4)
The Bank's share in operating profits of investee companies, after tax	**74**	69	29	**169**	155	96

NOTE 15 - INVESTEE COMPANIES (CONT'D)

C. DETAILS REGARDING MAJOR INVESTEE COMPANIES:

Name of investee	Major activity	Bank's share in equity		Bank's voting right		Carrying value of the investment on equity basis(3)	
		December 31		December 31		December 31	
		2022	2021	2022	2021	2022	2021
		%	%	%	%		NIS million
Israeli consolidated subsidiaries:							
Bank Massad Ltd.	Commercial Bank	**51.0**	51.0	**51.0**	51.0	**496**	452
UBank trust company Ltd.	Trust services	**100.0**	100.0	**100.0**	100.0	**116**	88
Equity basis investee:							
Israel Credit Cards Ltd.	Credit Cards	**28.2**	28.2	**21.0**	21.0	**687**	713

(1) The above list does not include wholly owned and controlled consolidated companies that are property companies or that supply services to the Bank, whose assets and operating results are included in the financial statements of the Bank.
(2) The shares of all the companies in the above list are not listed for trading on the stock exchange.
(3) Including balance of excess cost attributed to customers relation.
(4) Including the accumulated effect in respect of initial implementation of US accounting principles in the matter of "financial instruments- credit losses" (ASC 326). For details see note 1.C. above.

	Other capital investments		Bank's equity earnings		Dividend recorded		Other items accumulated in shareholders' equity	
	December 31							
	2022	2021	2022	2021	2022	2021	2022	2021
		NIS million		NIS million		NIS million		NIS million
	-	5	**61**	52	**-**	(10)	[4] **(17)**	-
	-	-	**28**	26	**-**	-	**-**	-
	-	-	**83**	78	**(118)**	-	**9**	(1)

NOTE 15 - INVESTEE COMPANIES (CONT'D)

D. CONDENSED INFORMATION REGARDING AN EQUITY BASIS INVESTEE, WITHOUT ADJUSTMENT TO THE RATE OF OWNERSHIP HELD BY THE GROUP

1. Condensed information regarding the financial condition

	Bank's share in equity	Total assets	Total liabilities	Capital attributed to the company's shareholders
	%			NIS millions
Israel Credit Cards Ltd.				
December 31, 2022	**28.2**	**18,616**	**16,496**	**2,120**
December 31, 2021	28.2	16,076	13,860	2,216

2. Condensed information regarding the results of operation

	Bank's share in equity	Net profit for the year
	%	NIS millions
Israel Credit Cards Ltd.		
For the year ended December 31, 2022	**28.2**	**309**
For the year ended December 31, 2021	28.2	271
For the year ended December 31, 2020	28.2	115

E. Between the Bank and other shareholders in Massad bank Ltd. and between the Bank and other shareholders in Israel Credit Cards Ltd, exist agreements, which arrange the rights and obligations towards each other, as shareholders at Massad bank Ltd. and Israel Credit Cards Ltd.

NOTE 16 - PREMISES AND EQUIPMENT

(NIS million)

A. Composition:

	Consolidated			The Bank		
	Buildings & premises (1)	Furniture, equipment and vehicles	Total	Buildings & premises (1)	Furniture, equipment and vehicles	Total
Cost of assets						
Balance as at December 31, 2020	1,438	580	2,018	1,370	576	1,946
Additions	18	21	39	16	20	36
Disposals	(43)	(1)	(44)	(22)	-	(22)
At December 31, 2021	1,413	600	2,013	1,364	596	1,960
Additions	**17**	**24**	**41**	**16**	**24**	**40**
Disposals	**(22)**	**-**	**(22)**	**(22)**	**-**	**(22)**
At December 31, 2022	**1,408**	**624**	**2,032**	**1,358**	**620**	**1,978**
Accumulated depreciation (2)						
Balance as at December 31, 2020	571	482	1,053	531	479	1,010
Depreciation	37	29	66	34	29	63
Disposals	(36)	(1)	(37)	(19)	-	(19)
At December 31, 2021	572	510	1,082	546	508	1,054
Depreciation	**36**	**29**	**65**	**33**	**29**	**62**
Disposals	**(17)**	**-**	**(17)**	**(17)**	**-**	**(17)**
At December 31, 2022	**591**	**539**	**1,130**	**562**	**537**	**1,099**
Amortized balance as at December 31, 2020	867	98	965	839	97	936
Amortized balance as at December 31, 2021	841	90	931	818	88	906
Amortized balance as at December 31, 2022	**817**	**85**	**902**	**796**	**83**	**879**
Weighted average depreciation rate in % as at 31.12.22	**4.0%**	**15.8%**		**3.9%**	**15.9%**	
Weighted average depreciation rate in % as at 31.12.21	3.7%	15.6%		3.5%	15.7%	

(1) Including fixtures and improvements in the rental.
(2) Depreciation accrued including losses accrued from impairment.

B. The Bank and its subsidiaries own rental or leasehold rights in different properties in a total amount of NIS 357 million (December 31, 2021 - NIS 369 million). Of this amount are rental or leasehold rights for periods not exceeding 49 years from balance sheet date in the amount of NIS 285 million (December 31, 2021 - NIS 294 million). The Bank and its subsidiaries own rights to property by way of capitalized leaseholds in the amount of NIS 304 million (December 31, 2021 - NIS 315 million).

C. Land rights totaling NIS 295 million (31.12.21 - NIS 304 million) have yet to be recorded in the name of the Bank or its investee companies at Land Registry Offices.

D. The balance-sheet balance of premises and equipment not in use by the Bank or the Group and which were classified as real estate for investment amounted to NIS 10 million (31.12.21 - NIS 13 million).

E. The group has in use assets that were fully depreciated. The cost of these assets as of December 31, 2022 amounted to NIS 636 million (31.12.21 - NIS 603 million).

NOTE 16 - PREMISES AND EQUIPMENT (CONT'D)

(NIS million)

F. INFORMATION REGARDING LEASES

Starting with January 1, 2020, the Bank applies Item 842 of the Codification with respect to leases. In the framework of lease arrangements, the Bank leases property (mostly office premises and branch offices) and motor vehicles, essentially for the business activity of the Bank. The lease agreements are classified as operating leases. In most property lease agreements and in all vehicle lease agreements to which the Bank is a party, the lease payments are linked to the Consumer Price Index (CPI), based on the most recent index published prior to the date of engagement in the lease ("known index").

The lease period is defined as the period in which the lease may not be cancelled, together with periods covered by an option for extension of the lease, where it is reasonably certain that the Bank would exercise the option.

With respect to a part of the properties leased by the Bank, the Bank, at its exclusive discretion, has the option of terminating the lease after 3-5 years, subject to an advance notice to the lessor of at least 3-12 months. The option for termination has not been taken into account in computing the liability in respect of leases.

Whereas, the rate of interest inherent in the lease is not easily determinable, use has been made of the additional rate of interest of the Bank, being the rate of interest that the Bank would have been required to pay in respect of a loan in an amount equal to the lease payments over a similar period, where the leased property serves as an economic collateral and in a similar environment.

The Bank has no lease arrangements which are classified as financial leases.

1. Expenses in respect of leases

	Consolidated			The Bank		
	For the year ended December 31,			For the year ended December 31,		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
			NIS million			NIS million
Expenses in respect of operating leases	**74**	77	73	**68**	71	67
Variable lease expenses	**2**	-	-	**2**	-	-
Total expenses in respect of leases	**76**	77	73	**70**	71	67

2. Additional information regarding leases

	Consolidated			The Bank		
	For the year ended December 31,			For the year ended December 31,		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
			NIS million			NIS million
Cash paid for balances included in the measurement of liabilities for leases:						
- Cash flow in respect of current operations regarding operating leases	**76**	76	72	**70**	70	66
Right of use assets recognized in respect of new operating leases	**20**	37	42	**19**	28	39
Balance of weighted average period (in years) in respect of operating leases	**4.0**	4.4	4.2	**4.0**	4.4	4.2
Weighted average discounting interest in respect of operating leases (in percentages)	**1.6**	0.92	0.85	**1.66**	0.93	0.86

NOTE 16 - PREMISES AND EQUIPMENT (CONT'D)
(NIS million)

3. Non capitalized cash flows and liabilities in respect of operating leases

				Consolidated
	December 31, 2022		December 31, 2021	
	Noncapitalized cash flows	Liability for leases	Noncapitalized cash flows	Liability for leases
				NIS million
Up to one year	**68**	**68**	65	63
Over one to two years	**60**	**58**	52	52
Over two to three years	**54**	**51**	44	43
Over three to four years	**47**	**44**	40	39
Over four to five years	**40**	**37**	35	34
Over five years	**142**	**120**	131	118
Total	**411**	**378**	367	349

				The Bank
	December 31, 2022		December 31, 2021	
	Noncapitalized cash flows	Liability for leases	Noncapitalized cash flows	Liability for leases
				NIS million
Up to one year	**63**	**62**	59	58
Over one to two years	**55**	**53**	47	47
Over two to three years	**49**	**46**	39	39
Over three to four years	**42**	**40**	35	34
Over four to five years	**36**	**32**	31	30
Over five years	**129**	**108**	113	100
Total	**374**	**341**	324	308

NOTE 17 - INTANGIBLE ASSETS

(NIS million)

	Consolidated			The Bank
	Customers relations	Software	Total	Software
Cost				
At December 31, 2020	538	1,286	1,824	1,285
Addition	-	133	133	133
Disposals	-	-	-	-
At December 31, 2021	538	1,419	1,957	1,418
Addition	**2**	**128**	**130**	**128**
Disposals	**-**	**-**	**-**	**-**
At December 31, 2022	**540**	**1,547**	**2,087**	**1,546**
Amortization				
At December 31, 2020	530	1,022	1,552	1,021
Amortization for the year	2	103	105	103
Disposals	-	-	-	-
At December 31, 2021	532	1,125	1,657	1,124
Amortization for the year	**2**	**111**	**113**	**111**
Disposals	**-**	**-**	**-**	**-**
At December 31, 2022	**534**	**1,236**	**1,770**	**1,235**
Book value				
At December 31, 2020	8	264	272	264
At December 31, 2021	6	294	300	294
At December 31, 2022	**6**	**311**	**317**	**311**

NOTE 18 - OTHER ASSETS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
Deferred taxes, net (see Note 8)	**630**	617	**589**	581
Income tax advances, net of provisions and other institutions	**18**	3	**12**	3
Assets relating to MAOF market activity	**26**	333	**26**	333
Right-of-use assets in respect of operating lease	**375**	346	**338**	306
Other receivables and debit balances	**196**	237	**201**	237
Total other assets	**1,245**	1,536	**1,166**	1,460

NOTE 19 - DEPOSITS FROM THE PUBLIC

(NIS million)

A. CLASSES OF DEPOSITS BY PLACE OF ORIGIN AND TYPE OF DEPOSITOR IN ISRAEL

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
Demand				
- Non-bearing interest	**55,668**	68,605	**51,060**	63,665
- Bearing interest	**25,869**	31,353	**25,870**	31,353
Total demand	**81,537**	99,958	**76,930**	95,018
Fixed-term	**86,732**	53,489	**84,610**	51,994
Total deposits in Israel*	**168,269**	153,447	**161,540**	147,012
* Of which:				
Deposits of private individuals	**78,552**	73,045	**70,319**	65,270
Deposits of institutional entities	**37,805**	31,872	**37,799**	31,835
Deposits of corporates and others	**51,912**	48,530	**53,422**	49,907

B. DEPOSITS OF THE PUBLIC BY SIZE (CONSOLIDATED)

	December 31	
Maximum amount of deposit	2022	2021
Up to 1	**57,871**	55,956
From 1 to 10	**39,447**	36,190
From 10 to 100	**20,632**	18,209
From 100 to 500	**10,857**	11,644
Over 500	**39,462**	31,448
Total	**168,269**	153,447

NOTE 20 - DEPOSITS FROM BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
In Israel				
Commercial Banks:				
Demand deposits	**558**	874	**576**	953
Fixed-term deposits	**9**	8	**2,393**	2,363
Acceptances	**57**	68	**57**	68
Central banks:				
Fixed-term deposits	**4,197**	4,194	**4,197**	4,194
Total deposits from banks	**4,821**	5,144	**7,223**	7,578

NOTE 21 - BONDS AND SUBORDINATED CAPITAL NOTES
(NIS million)

A. Composition:

	Duration (1)	Internal rate of return (1)	Consolidated		The Bank	
			December 31		December 31	
	Years	%	2022	2021	2022	2021
Bonds and subordinated capital notes in -						
- Non-linked Israeli currency	**0.49**	**6.90**	**4**	6	**4**	6
- Israeli currency linked to the CPI	**5.67**	**1.59**	**4,745**	3,350	**2,361**	956
Total bonds and non-convertible subordinated capital notes(2)			**4,749**	3,356	**2,365**	962
Including: subordinated capital notes			**2,365**	962	**47**	77

(1) Internal rate of return: The rate of interest which discounts the future flow of payments to the outstanding amount in the balance sheet.
Duration: The average period of payments weighted by the flow of payments discounted by the internal rate of return.
The data as to the internal rate of return and the duration to maturity are as at December 31, 2022, and related to the consolidated statements.

(2) Of which: registered for trade at the Tel Aviv Stock Exchange, bonds in the amount of NIS 2,384 million and subordinated capital notes in the amount of NIS 2,318 million (December 31, 2021 - bonds in the amount of NIS 2,393 million and subordinated capital notes in the amount of NIS 886 million).

NOTE 22 - OTHER LIABILITIES
(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
Deferred tax liabilities, net (see Note 8)	**44**	44	**44**	44
Provision for current taxes, net of advance tax payments	**267**	196	**261**	190
Excess of provision for severance pay over amounts funded (see note 23)	**575**	690	**567**	679
Income received in advance	**80**	84	**77**	81
Creditors in respect of credit cards activity	**2,218**	2,160	**1,843**	1,807
Liabilities relating to MAOF market activity	**26**	333	**26**	333
Creditors in respect of salaries and related costs (see also Note 23)	**599**	610	**551**	560
Short selling of securities	**-**	308	**-**	308
Liabilities in respect of operating leases	**378**	349	**341**	308
Other creditors and Credit balances	**335**	314	**310**	291
Total other liabilities	**4,522**	5,088	**4,020**	4,601

NOTE 23 - EMPLOYEE BENEFITS

A. SIGNIFICANT BENEFITS

1. Pension and Severance Pay

A part of the Group's liabilities for severance pay and pensions is covered by current deposits, in the name of the employees, with provident and pension funds or by the purchase of insurance policies. The liability for severance pay and pension included in the balance sheet represents the portion of the liabilities which is not covered by deposits and/or insurance policies, as stated above. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, the rate of increase in wages, increased severance pay, mortality and retirement rates.

2. Staff Long-Service Awards

Part of the employees in the Group are entitled to a special seniority award ("jubilee award") after having completed a defined period of employment at the Group. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

3. Benefit in respect of nonutilized sick leave

Some of the employees of the Bank are entitled to a benefit in respect of nonutilized accumulated sick leave. Towards the retirement date, this benefit is convertible into vacation days to be actually utilized, based on a determined conversion formula. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

4. Other post-employment benefits

Certain senior officers are entitled upon their retirement for a non-competition award.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits. These benefits include: holiday gifts, newspapers, vacations, etc. Employees of a consolidated subsidiary are entitled to an award upon reaching retirement age in respect of unutilized sick leave. These liabilities are measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, mortality and retirement rates.

6. Vacation pay

Employees of the Group are entitled by law and by labor agreements to paid annual vacation. The provision for vacation pay is calculated on the basis of the most recent salary amounts of employees and the vacation days accumulated in their favor, with the addition of the required related expenses.

B. See note 33.f. regarding employment agreements with the CEO and the Chairman of the Board.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

C. COMPOSITION OF BENEFITS:

	Consolidated		The Bank	
	December 31,		December 31,	
	2022	2021	2022	2021
	(NIS million)		(NIS million)	
Pension and severance pay				
Amount of liability	**833**	987	**734**	877
Fair value of assets of the scheme	**(258)**	(297)	**(167)**	(198)
Excess liabilities over assets of the scheme	**575**	690	**567**	679
Excess liabilities of the scheme included in the item "other liabilities"	**575**	690	**567**	679
Long-service awards - amount of liability	**15**	17	**14**	16
Benefit regarding unused sick leave - amount of liability	**27**	30	**27**	30
Other post-employment benefits	**9**	9	**9**	9
Other post-retirement benefits	**198**	236	**178**	213
Vacation pay	**74**	78	**69**	73
Other	**276**	240	**254**	219
Total				
Excess liabilities regarding employee benefits over assets of the scheme included in the item "other liabilities"	**1,174**	1,300	**1,118**	1,239

D. DEFINED BENEFITS SEVERANCE PAY AND PENSION SCHEMES

(1) Liabilities and financing situation

	Severance pay, and pension schemes		Other post-retirement benefits	
	For the year ended December 31,		For the year ended December 31,	
	2022	2021	2022	2021
	(NIS million)		(NIS million)	
A. Change in liability regarding anticipated benefits				
Liability regarding anticipated benefit at beginning of period	**987**	960	**236**	219
Cost of service	**26**	20	**5**	5
Cost of interest	**30**	18	**8**	6
Actuarial loss (gain)**	**(171)**	107	**(47)**	10
Benefits paid	**(39)**	(118)	**(4)**	(4)
Liability regarding anticipated benefit at end of period	**833**	987	**198**	236
Liability regarding cumulative benefit at end of period	**702**	808	**195**	233
B. Change in fair value of assets of the scheme and the financing situation of the scheme				
Fair value of assets of the scheme at beginning of period	**297**	343	**-**	-
Actual return on assets of the scheme	**(7)**	44	**-**	-
Deposits in the scheme by the Bank	**9**	9	**-**	-
Benefits paid	**(41)**	(99)	**-**	-
Fair value of assets of the scheme at end of period	**258**	297	**-**	-
Financing situation - net liability recognized at end of period*	**575**	690	**198**	236

* Included in the item "Other liabilities".

** In 2022 – The actuarial gain stemmed mainly from an increase in the discounting interest rate.
In 2021- the actuarial loss stemmed mainly from leaving review performed during the fourth quarter of 2021, which resulted in an increase in the liability in respect of pension and severance pay against an increase in other comprehensive loss in an amount of NIS 143 million. The loss was partially offset by an actuarial gain derived from an increase in the forecasted inflation.

	Severance pay, and pension schemes		Other post-retirement benefits	
	December 31,		December 31,	
	2022	2021	2022	2021
	(NIS million)		(NIS million)	
C. Amounts recognized in the consolidated balance sheet				
Amounts recognized in the item "other liabilities"	**575**	690	**198**	236
Net liability recognized at end of period	**575**	690	**198**	236
D. Amounts recognized in other cumulative comprehensive loss, before the tax effect				
Actuarial loss, net	**117**	289	**33**	83
Closing balance in other cumulative comprehensive loss	**117**	289	**33**	83
E. Schemes in which the liability regarding cumulative benefits exceed the assets of the scheme				
Liability regarding anticipated benefit	**833**	987	**198**	236
Liability regarding cumulative benefit	**702**	808	**195**	233
Fair value of assets of the scheme	**258**	297	**-**	-

(2) Expense for the period

	Severance pay, and pension schemes			Other post-retirement benefits		
	December 31,			December 31,		
	2022	2021	2020	2022	2021	2020
	(NIS million)			(NIS million)		
A. Cost components of net benefit recognized in profit and loss						
Cost of service	**26**	20	21	**5**	5	5
Cost of interest	**30**	18	19	**8**	6	5
Anticipated return on assets of the scheme	**(8)**	(7)	(9)	**-**	-	-
Amortization of non-recognized amounts:						
Net actuarial loss	**13**	17	14	**3**	5	4
Dismissal	**3**	36	26	**-**	-	-
Capitalized cost of software	**(3)**	(3)	(3)	**-**	-	-
Total cost of benefits, net	**61**	81	68	**16**	16	14
B. Changes in assets of the scheme and in liability for benefits recognized in other comprehensive loss (profit), before the tax effect						
Net actuarial loss (profit) for the period	**(156)**	70	108	**(47)**	10	7
Amortization of actuarial loss	**(13)**	(17)	(14)	**(3)**	(5)	(4)
Dismissal	**(3)**	(36)	(26)	**-**	-	-
Total recognized in other comprehensive loss (profit)	**(172)**	17	68	**(50)**	5	3
Total net cost of benefit	**61**	81	68	**16**	16	14
Total net cost of benefit for the period recognized in other comprehensive loss (profit)	**(111)**	98	136	**(34)**	21	17

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(3) Assumptions

A. Assumptions on the basis of weighted average used to determine the liability in respect of the benefits and for the measurement of the net cost of benefits

	Severance pay, and pension schemes		Other post-retirement benefits	
	December 31,		December 31,	
	2022	2021	2022	2021
		percent		percent
1. Principal guidelines used to determine the liability for benefits				
Real discounting rate *		(0.3)		0.4
Nominal discounting rate *	**4.4**		**4.5**	
Forecasted rate of rise in the CPI	**2.6**	2.5	**2.7**	2.5
Retirement rate	**0.1-8.6**	0.1-8.6	**0.1-8.6**	0.1-8.6
Rate of increase in nominal-term compensation	**1.1-5.2**	1.1-5.2	**0.0-3.2**	0.0-3.0

	Severance pay, and pension schemes			Other post-retirement benefits		
	For the year ended December 31,			For the year ended December 31,		
	2022	2021	2020	2022	2021	2020
			percent			percent
2. Principal guidelines used to measure the net cost of benefits for the period						
Real discounting rate *		0.0-0.3	0.4-2.0		0.6-0.8	1.0-2.3
Nominal discounting rate *	**2.2-4.4**			**3.0-4.7**		
Anticipated long-term return on assets of the scheme	**2.0-2.8**	1.5-2.0	1.6-2.8			
Rate of increase in nominal-term compensation	**1.1-5.2**	1.1-5.2	1.1-5.2	**0.0-3.2**	0.0-3.0	0.0-3.0

B. Effect of a one percentage point change on the liability in respect of the anticipated benefit, before the tax effect

	Severance pay, and pension schemes				Other post-retirement benefits			
	One percentage point growth		One percentage point decline		One percentage point growth		One percentage point decline	
	December 31,		December 31,		December 31,		December 31,	
	2022	2021	2022	2021	2022	2021	2022	2021
		(NIS million)		(NIS million)		(NIS million)		(NIS million)
Discounting rate	**(49)**	(74)	**60**	90	**(32)**	(41)	**42**	55
Retirement rate	**112**	121	**(92)**	(102)	**(4)**	(1)	**2**	2
Rate of increase in compensation	**62**	87	**(51)**	(72)	**1**	2	**(1)**	(1)

* Starting from 2022, the liability in respect of long term benefits is calculated using nominal actuarial model, while in previous periods, these benefits were calculated using real actuarial model.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(4) Assets of the scheme

A. Composition of the fair value of the assets of the scheme

	Severance pay, and pension schemes							
				December 31, 2022				December 31, 2021
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(NIS million)				(NIS million)
Cash and deposits with banks	**19**	**3**	**-**	**22**	10	6	-	16
Shares	**35**	**-**	**-**	**35**	58	-	-	58
Bonds:								
Government bonds	**87**	**12**	**-**	**99**	96	12	-	108
Corporate bonds	**53**	**15**	**-**	**68**	66	10	-	76
Total	**140**	**27**	**-**	**167**	162	22	-	184
Other	**2**	**17**	**15**	**34**	3	22	14	39
Total	**196**	**47**	**15**	**258**	233	50	14	297

B. Fair value of the assets of the scheme according to classes of assets and allotment target for 2022

		Severance pay, and pension schemes	
	Allotment	% of scheme's assets	
	target	December 31,	
	2023	2022	2021
			percent
Cash and deposits with banks	**3.3**	**8.5**	5.4
Shares	**13.4**	**13.6**	19.5
Bonds:			
Government bonds	**37.9**	**38.4**	36.4
Corporate bonds	**37.2**	**26.4**	25.6
Total	**75.1**	**64.8**	62.0
Other	**8.2**	**13.1**	13.1
Total	**100.0**	**100.0**	100.0

C. Cash flows

(1) Deposits

		Severance pay, and pension schemes	
		Actual deposits	
	Forecast	For the year ended December 31,	
	*2023	2022	2021
			(NIS million)
Deposits	**9**	9	9

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2023.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(2) Benefits expected to be paid by the Bank in the future**

Year	Severance pay, and pension schemes	Other post-retirement benefits
		(NIS million)
2023	63	8
2024	58	9
2025	44	9
2026	58	10
2027	55	10
2028-2032	344	57
2033 and thereafter	678	445
Total	1,300	548

** Non-discounted values. Not including future service cost.

NOTE 24A - SHAREHOLDERS' EQUITY

(NIS million)

A. SHARE CAPITAL - COMPOSITION:

	Authorized	Issued and paid up
	December 31	December 31
	2022 and 2021	2022 and 2021
Ordinary shares of NIS 0.05 each	18	5

All the ordinary shares are registered shares.

The ordinary shares of NIS 0.05 are traded on the Tel-Aviv Stock Exchange.

Each share entitles the holder to one vote at the general shareholders meeting. Each share entitles its holder to participate in the distribution of profits and to participate in the distribution of the Bank's net assets in the event of liquidation, pro-rata to its par value.

B. DIVIDEND DISTRIBUTION POLICY

In accordance with the profit distribution policy adopted by the Board of Directors, the Bank would distribute annual dividends up to 50% of its distributable annual net earnings for the current year, provided that the Bank's ratio of capital to risk elements shall be no less than the regulatory targets and targets specified, or to be specified, by the Bank Board of Directors from time to time. Past retained earnings shall be distributed by specific resolution. Such distributions shall be made subject to statutory provisions and to proper conduct of banking business directives, provided that no adverse changes occur to the Bank earnings and/or business condition and/or financial condition and/or overall state of the economy and/or to the statutory environment.

Nothing in this resolution shall detract from the Board of Directors' authority to review the policy from time to time and to resolve, at any time, after taking into account business considerations and statutory provisions applicable to the Bank, to change the policy or to change the dividend amount to be distributed for any specific period, or to resolve not to distribute any dividend at all.

It is hereby clarified that any dividend distribution (including pursuant to the aforementioned resolutions) shall be subject to specific approval by the Board of Directors and to all restrictions applicable to the Bank with regard to dividend distribution, and shall be made public with all required details in accordance with statutory provisions.

It is noted that a dividend distribution by the Bank is subject, in addition to provisions of the Companies Act, to the following additional restrictions:

- Proper Conduct of Banking Business Directive No. 331, whereby a banking corporation may not distribute dividends upon any of the following cases (unless the prior consent of the Supervisor of Banks is obtained): (1) if the cumulative retained earnings, net of differences in debit included in other cumulative comprehensive profit, as per the financial statements, is not positive, or such distribution would cause it to not be positive; (2) if one or more of the three most recent calendar years ended with a loss or with a comprehensive loss; (3) if a loss or a comprehensive loss is indicated by the cumulative results of the three quarters ending at the end of the interim period for which the most recent financial statements were published; (4) if the Bank's financial statements show non-monetary assets in excess of shareholders' equity, or should such distribution result in such condition. In any case, the distribution is contingent on compilation of a written forecast for the year following the dividend distribution, provided that such forecast would show that the banking corporation's ratio of capital to risk assets shall not be lower than the required minimum, thereof.
- Proper Conduct of Banking Business Directives which include guidelines regarding the manner of calculation of minimal capital ratio requirements. Proper Conduct of Banking Business Directive No. 201 requires that as from January 1, 2015, the minimal ratio of Tier 1 equity capital to risk assets will be 9% and the ratio of comprehensive capital to risk assets will be 12.5%. With regards to the minimal capital ratio, see Note 24B regarding "Capital adequacy targets", for mitigating provisions stated in a Provisional Instruction issued in the wake of the Corona crisis.

NOTE 24A - SHAREHOLDERS' EQUITY (CONT'D)
(NIS million)

- "Restrictions on extending housing loans"- as a result of the application of the amendment to Proper Conduct of Banking Business Directive No. 329, it is required to raise the target of Tier 1 equity capital by a rate reflecting 1% of the outstanding balance of housing loans. For relief and clarifications in this matter, see Note 24B regarding "Capital adequacy targets".
- In accordance with letters addressed to the Bank by the Supervisor of Banks, it is required to inform the Supervisor in advance as to a distribution of a dividend in an amount exceeding 50% of the annual profit of the Bank in the current year.
- The permit by the Governor of Bank of Israel issued in 2003 stipulated that no dividends may be distributed out of earnings accrued by the Bank through March 31, 2003 (which amounted to NIS 2,391 million), and that if any loss would be accrued after said date, no dividends may be distributed until such loss is recouped.

Following are details regarding dividends distributed by the Bank, as from the year 20:

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS million	NIS
15 March 2020	31 March 2020	125	1.25
17 August 2021	1 September 2021	225	2.24
23 November 2021	13 December 2021	320	3.19
6 January 2022	24 January 2022	215	2.14
7 March 2022	24 March 2022	165	1.65
24 May 2022	12 June 2022	160	1.59
24 August 2022	1 September 2022	170	1.70
22 November 2022	8 December 2022	235	2.34

	For the year ended December 31,		
	2022	2021	2020
Dividend declared and paid by the Bank	**945**	545	125

The Bank had applied and accepted the position of Bank of Israel, according to which, nothing avoids considerations by the Bank for the distribution of a one-time dividend distribution, which includes an amount of NIS 150 million (completing the distribution of 50% of net earnings of 2020, in accordance with the dividend policy) and an additional one-time amount of dividend of up to NIS 350 million. However, considering the continuous growth of the Bank, the Board of Directors of the Bank resolved, on March 21, 2023, that the Bank does not consider a one-time dividend distribution, as mentioned above.
On March 21, 2023, the Board of Directors of the Bank resolved in accordance with the dividend distribution policy of the Bank, to approve a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 268 million (gross), comprising approx. 50% of the net earnings of the Bank for the fourth quarter of 2022.
The ex-dividend date was fixed for March 28, 2023, and payment of the dividend shall be made on April 4, 2023. The amount of the dividend is before any tax, including tax which the Bank has to withhold according to the law

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY

A. BASEL 3 GUIDELINES

The bank implements measurement and capital adequacy requirements based on the Basel Committee instructions, as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives Nos. 201-211, as well in FAQ file.

Basel 3 instructions were implemented from January 1, 2014, in a gradual manner, in accordance with the transitional instructions stated in Proper Conduct of Banking Business Directive No, 299 in the matter of "measurement and capital adequacy - regulatory capital - transitional instructions". According to the Transitional Instructions, the capital instruments no longer qualified as regulatory capital were recognized since January 1, 2014, up to a maximum of 80% of their balance in the supervisory capital as of December 31, 2013. In each of the following years until January 1, 2022, this maximum level is being reduced by an additional 10%. Accordingly, in 2021, the maximum rate of instruments qualified as regulatory capital amounts to 10% and as from January 1, 2022, the transitional instructions have expired and nonqualified capital instruments may no longer be recognized as regulatory capital.

(1) Capital adequacy goals

In accordance with Proper Conduct of Banking Business Directives regarding the minimum capital ratios, the Bank, the total assets of which on a consolidated basis does not exceed 24% of total assets of the banking sector in Israel, is required to attain a minimum Tier I equity capital ratio of 9%, and a minimum comprehensive capital ratio of 12.5%.

Likewise, in accordance with Proper Conduct of Banking Business Directive No. 329 regarding "limitation on the granting of residential loans", the Bank is required to raise the targeted Tier I equity capital level by one percent of the outstanding balance of residential loans at the reporting date, excluding residential loans granted during the Provisional Instruction period, as stated hereunder.

In view of the spreading of the Coronavirus and as part of the adjustment to Proper Conduct of Banking Business directives, the Supervisor of Banks published, Proper Conduct of Banking Business Directive No. 250, which, inter alia, contained the Provisional Instruction concerning the update of Directive 201, which includes a reduction of 1% of the minimal capital requirements applying to banks and an update to Directive 329, which cancels the demand of additional 1% applying to housing loans for the purpose of the purchase of a residential apartment granted in the period from March 19, 2020 to September 30, 2021, and to residential loans, secured by a mortgage on an apartment, not for the purpose of purchasing rights in real estate (hereinafter – "loans for any purpose"), granted since March 19, 2020.

All along the crisis period, the Supervisor of Banks published updates extending the effect of the Provisional Instruction. On December 27, 2021, the Supervisor of Banks issued a letter, according to which, the effect of the Provisional Instruction expires as from January 1, 2022. Likewise, the letter amends Proper Conduct of Banking Business Directive No. 329 regarding limitations on housing loans, according to which, the additional capital requirement of 1% shall apply to loans for residential purposes only and not to loans for any other purpose.

In view of all that stated above, and in consideration of additional capital requirement from the balance of housing loans, the minimal Tier I equity capital ratio and the minimal comprehensive capital ratio required from the Bank by the Supervisor of Banks, amount on a consolidated basis, as of December 31, 2022, to 9.24% and 12.50%, respectively.

For the outstanding balance of the housing loans see note 29.B.3.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

The Group has capital targets approved by the Board of Director and reflect suitable capital level when taking into consideration the risk profile and risk appetite.

The internal capital goals, as determined by the Board of Directors, are as follows:

- In the ordinary course of business - Tier I equity capital ratio of not lower than 9.25% and comprehensive capital ratio of not lower than 12.50%.
- In stress situations - Tier I equity capital ratio of not lower than 6.50% and comprehensive capital ratio of not lower than 9.00%.

(2) Following are details regarding risk assets, the regulatory capital and capital ratios calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211:

	December 31,	
	2022	**2021**
		(NIS million)
A. Consolidated		
a. Capital for calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	**10,802**	10,199
Tier 2 capital after deductions	**3,448**	1,891
Total overall capital	**14,250**	12,090
b. Weighted balances of risk assets		
Credit risk	(2)**94,786**	(2)81,660
Market risk	**789**	683
Operational risk	**8,061**	6,645
Total weighted balances of risk assets	**103,636**	88,988
		percent
c. Ratio of capital to risk assets		
Ratio of tier 1 capital to risk assets	**10.42%**	11.46%
Ratio of comprehensive capital to risk assets	**13.75%**	13.59%
Minimal ratio of Tier 1 equity capital required by the Supervisor of banks	(1)**9.24%**	(1)8.25%
Minimal ratio of comprehensive capital required by the Supervisor of Banks	(1)**12.50%**	(1)11.50%

		percent
B. Significant Subsidiary		
Massad Bank Ltd.		
Ratio of Tier 1 equity capital to risk assets	**15.12%**	14.71%
Ratio of comprehensive capital to risk assets	**16.25%**	15.72%
Minimal ratio of Tier 1 equity capital required by the Supervisor of banks	**9.00%**	8.00%
Minimal ratio of comprehensive capital required by the Supervisor of Banks	**12.50%**	11.50%

(1) The required minimal Tier 1 equity capital ratio and minimal comprehensive capital ratio are 9.0% and 12.5%, respectively. To the required minimal Tier I equity capital ratio was added capital requirement comprising 1% of residential loans balance at the reporting date. However, in accordance with the Provisional Instructions regarding modification of Proper Conduct of Banking Business Directives regarding confrontation with the Corona crisis, as from March 2020 and until December 31, 2021, the minimal Tier 1 equity capital ratio and minimal comprehensive capital ratio were 8% and 11.5%, respectively. Likewise, no additional capital requirement at the rate of 1% was required in respect of loans for residential purposes granted as from the beginning of the Provisional Instruction period (March 19, 2020) and until September 30, 2021, and on any purpose residential loans granted as from the beginning of the Provisional Instruction period (March 19, 2020).

(2) An amount of NIS 69 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures (31.12.21 – NIS 100 million).

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

(3) Capital components for computation of capital ratio (consolidated)

	December 31,	
	2022	2021
		(NIS million)
A. Tier 1 equity capital		
Capital attributed to shareholders	**10,559**	10,003
Differences between capital attributed to shareholders and Tier 1 equity capital		
Non-controlling rights	**265**	220
Total Tier 1 equity capital before regulatory adjustments and deductions	**10,824**	10,223
Regulatory adjustments and deductions:		
Intangible assets	**(96)**	(96)
Regulatory adjustments and other deductions- Tier 1 equity capital	**(5)**	(3)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - Tier 1 equity capital	**(101)**	(99)
Total adjustments in respect of efficiency measures- Tier 1 equity capital(1)	**51**	75
Total adjustments in respect of expected credit losses- Tier 1 equity capital(2)	**28**	-
Total Tier 1 equity capital after regulatory adjustments and deductions	**10,802**	10,199
B. Tier 2 capital		
Tier 2 capital: instruments before deductions	**2,296**	907
Tier 2 capital: provisions before deductions	**1,152**	984
Total tier 2 capital before deductions	**3,448**	1,891
Deductions:		
Total deductions- Tier 2 capital	**-**	-
Total Tier 2 capital	**3,448**	1,891

(4) Effect of adjustments in respect of efficiency measures, expected credit losses and highly leveraged financing of acquisition of land on equity capital tier 1

	December 31,	
	2022	2021
		(NIS million)
Ratio of capital to risk assets		
Ratio of tier 1 equity capital to risk assets before effect of adjustments	**10.28%**	11.37%
Effect of adjustments in respect of efficiency measures(1)	**0.05%**	0.09%
Effect of adjustments in respect of expected credit losses(2)	**0.03%**	-
Effect of adjustments in respect of highly leveraged financing of acquisition of land(3)	**0.06%**	-
Ratio of Tier 1 equity capital to risk assets	**10.42%**	11.46%

(1) Adjustments in respect of efficiency measures, according to the directives of the Supervisor of Banks (see item 5 hereunder) which are being reduced gradually over 5 years period, from the date of their initiation.

(2) Adjustments in respect of expected credit losses, according to the directive of the Supervisor of Banks (see item 6 hereunder) are being gradually reduced until December 31, 2024.

(3) Adjustments in respect of highly leveraged financing of acquisition of land (see item 7 hereunder) are being gradually reduced until June 30, 2023.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

(5) Efficiency measures

The Supervisor of Banks published a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multiannual program for the increase in efficiency. A banking corporation that complies with the provisions of the letter shall be entitled to a relief, whereby, for the purpose of calculating the capital adequacy, the effect of the cost of this program may be spread by the "straight line" method over five years. On December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines until December 31, 2021.

(a) In the course of the third quarter of 2018, a merger decision was taken, and on January 1, 2019, Otsar Hahayal was merged with and into the Bank. In respect of these actions the Group recorded a provision for increased severance compensation in the amount of NIS 82 million (net amount of NIS 53 million after the tax effect).
The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2022 to be lower by 0.01%.

(b) On July 28, 2020 and on November 3, 2020, the Board of Directors approved an efficiency plan, according to which 60 regular employees of the Bank, belonging to the defined target population, will be allowed to opt for early retirement under preferential terms.
The plan increased other comprehensive loss (gross) in an amount of NIS 48 million in respect of severance compensation liability and post-retirements benefits.
In addition, in the fourth quarter of the year 2020, an additional provision for enlarged severance compensation was recorded, in an amount of NIS 50 million, in respect of another early retirement anticipated in the upcoming years. Total net effect, after tax in respect of these actions amounted to NIS 65 million.
The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2022 to be lower by 0.04%.

(6) Initial implementation of accounting principles regarding expected credit losses

As from January 1, 2022, the Bank is applying the new rules regarding provisions for credit losses, recognizing at date of initial implementation, the cumulative effect thereof.

On December 1, 2020, the Supervisor of Banks issued a letter in the matter of "regulatory capital – effect of implementation of accounting principles regarding expected credit losses", which included, inter alia, update of Proper Conduct of Banking Business Directive No. 299, stating that, to the extent that the initial implementation of these rules results in a decline in the Tier I equity capital of a banking corporation, then the amount of the decline may be spread over a period of three years (hereinafter – "the transitional period").

Save for the said relief, as of December 31, 2022, the implementation would have resulted in an additional decrease of 0.03% in the capital adequacy ratios.

For details of the initial implementation, see Note 1(c) above.

(7) Additional allocation of capital in respect of highly leveraged financing of the acquisition of land

On May 22, 2022, the Supervisor of Banks published an updating to Proper Conduct of Banking Business Directive No. 203 (Measurement and capital adequacy) designated to treat exposure in the construction and real estate sector. According to this letter, loans extended to finance the acquisition of land for development or construction purposes, of a ratio exceeding 80% of the value of the purchased property (LTV), shall be weighted at an increased weight of 150%, with the exception of loans financing the purchase of agricultural land that has no zoning outlook or in respect of which there is no intention of applying for planning consent and loans for the acquisition of land for self-use of a borrower who is not classified to the construction and real estate segment.

When implementing the directive in the financial statements as of September 30, 2022, the Bank calculated the risk assets, in respect of financing of land with LTV higher than 80%, based on assumptions, in respect of how to calculate the required additional risk assets in accordance to the directive. This calculation may change if clarifications will be received regarding the way of implementation of the directive. The results of these discussions, as above, is not expected to have a material effect on the capital adequacy ratio as of September 30, 2022.

The effect of the change in the risk weight on the capital ratio, in respect of the balance of loans as of June 30, 2022, may be spread in constant quarterly rates from September 30, 2022 until June 30, 2023. Save for the said relief, as of December 31, 2022, the implementation would have resulted in an additional decrease of 0.06% and 0.08% in the tier 1 capital ratio and comprehensive capital ratio, respectively.

(8) The standard approach to the computation of exposure to counterparty credit risk (SA-CCR)

In March 2014, The Basel Committee on Banking Supervision published updates to Basel 3 instructions, among which was a new instruction regarding "the standard approach for the computation of exposure to counterparty credit risk" (SA-CCR).

On December 1, 2021, the Supervisor of Banks published a letter updating Proper Conduct of Banking Business Directives, which included, inter alia, the addition of Proper Conduct of Banking Business Directive No. 203A in the matter of the treatment of counterparty credit risk in accordance with SA-CCR, replacing approaches existing at the present time within the framework of Directive 203 for the computation of exposure to a counterparty in the event of failure. The Bank implements the Directive as from July 1, 2022.

Furthermore, on August 1, 2022, a circular letter was published, which updated directive 203, as part of which, the risk weights in respect of the calculation of capital allocation for CVA risk to the exposure of the banking corporations to insurance companies, provident funds and trust funds, were updated.

In accordance to the letter, due to the low risk, the Supervision of Banks determined to reduce the risk weight attributed to insurance companies, provident funds and trust fund, and compare it to the risk attributed to banking corporations.

The implementation of the new rules resulted in an increase in the capital requirement in respect of derivative instruments, a decrease in the leverage ratio and is affecting the calculations of the limitations in respect of a single borrower.

The implementation of the Directive resulted in a decrease in tier 1 equity capital and the comprehensive equity capital in the rates of 0.05% and 0.07%, respectively, this as a result of an increase in the amount of risk assets in respect of exposure to counterparty credit risk in an amount of NIS 520 million.

In addition, in accordance to a circular letter dated December 2021, a new directive was added, directive 208A, in the matter of new approaches in respect of capital allocation for CVA risk. The directive presents several possible approaches for calculating the capital allocation in respect of CVA risk. The Bank is required to implement the directive as from January 1, 2025.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

(9) Factors that might materially affect the capital adequacy of the Bank and of its significant subsidiary

(9a.) Capital components subject to fluctuations

The Bank manages the capital adequacy ratio with the aim of adhering to the minimal capital requirements of the Supervisor of Banks. The capital of the Bank and the volume of risk assets are subject to changes, inter alia, in respect of the factors detailed below:

- Actuarial changes due to changes in the interest rate used to compute the liabilities of the Bank or in other actuarial assumptions, such as: mortality rates, retirement etc.
- The effect of changes in interest rate and interest spread on the adjustments to fair value of available-for-sale bonds.
- Effect of changes in the CPI and exchange rates on the balances of the assets.

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of December 31, 2022:

	Effect of a change of NIS 100 million in Tier I equity capital	Effect of a change of NIS 1 billion in total risk assets
		percent
The Bank (consolidated data)	**0.10**	**0.10**
Massad Bank	**1.56**	**2.04**

B. LEVERAGE RATIO IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS

The Bank implements Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk-based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items.

As a general rule, the measurement is consistent with the accounting values, where for this purpose, risk weights are not taken into account. Likewise, the Bank is not permitted to use physical or financial collateral, guarantees or other techniques reducing credit risk, in order to reduce exposure measurements, unless these are specifically permitted by the Directive. Stated assets deducted from Tier I capital (in accordance with Directive 202) are deducted from exposure measurement. In accordance with the Directive, the Bank computes the exposure in respect of derivatives according to Appendix "C" to Proper Conduct of Banking Business Directive No. 203, and the exposure in respect of off-balance sheet items by converting into credit the theoretical amount of these items, using conversion into credit coefficients prescribed by Proper Conduct of Banking Business Directive No. 203.

In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis, for a banking corporation, the total stated consolidated assets of which comprises up to 24% of the total stated assets of the banking industry, including the Bank.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)
(NIS million)

Notwithstanding, and according to Proper Conduct of Banking Business Directive No. 250 – modifications to Proper Conduct of Banking Business Directives in order to cope with the Coronavirus crisis, which, inter alia, includes the Provisional Instruction, published on November 15, 2020, according to which, a banking corporation has to maintain a leverage ratio of no less than 4.5% (instead of 5%) on a consolidated basis, if it is a banking corporation, the total consolidated stated assets of which is up to 24% of total stated assets of the banking sector as a whole. In accordance with a letter amending Proper Conduct of Banking Business Directive No. 250, dated May 15, 2022, the relief will be valid until June 30, 2024, on condition that the leverage ratio of the banking corporation will not be less than the leverage ratio at December 31, 2023, or the minimal leverage ratio applying to the banking corporation prior to the Provisional Instruction, whichever is lower.

	December 31, 2022	December 31, 2021
		NIS million
A. Consolidated		
Tier 1 capital*	**10,802**	10,199
Total exposures	**207,943**	191,042
		percent
Leverage ratio	**5.19%**	5.34%
B. Significant Subsidiary		
Massad Bank Ltd.		
Leverage ratio	**8.15%**	7.68%
Minimal leverage ratio required by the Supervisor of Banks	**4.50%**	4.50%

* For the effect of adjustments in respect of efficiency measures, initial implementation of accounting principles in respect of expected credit losses and high risk loans for purchase of land, see paragraph A(4) above.

C. LIQUIDITY COVERAGE RATIO IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS

The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio is being measured in accordance with a uniform stress test for a time range of thirty days, as detailed in the Directive. The ratio is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets, as defined in the Directive, serving the liquidity needs of the corporation, and being measured in accordance with the net cash outflow anticipated in the stress tests.

	For the three months ended December 31	
	2022	2021
		percent
1. Consolidated*		
Liquidity coverage ratio	**127%**	128%
2. The Bank*		
Liquidity coverage ratio	**127%**	128%
3. Significant Subsidiary*		
Massad Bank Ltd.		
Liquidity coverage ratio	**261%**	248%
Minimal liquidity coverage ratio required by the Supervisor of banks	**100%**	100%

* In terms of simple averages of daily observations.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

D. NET STABLE FUNDING RATIO IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS

Since December 31, 2021, the Bank implements Proper Conduct of Banking Business Directive No. 222 in the matter of "Net stable Funding Ratio - NSFR", which adopts the recommendations of the Basel Committee in the matter of net stable funding ratio regarding the banking system in Israel. In accordance with the Directive, the aim of the net stable funding ratio, is to improve the resilience of the liquidity risk profile of banking corporations over a longer time horizon, by way of requiring banking corporations to maintain a stable funding profile, in accordance with the composition of their balance sheet assets and their off-balance sheet operations. The net stable funding ratio contains two components: available stable funding items (numerator) and required stable funding items (denominator). "Available stable funding" is defined as that part of capital and liabilities that may be relied on over the time horizon taken into account in the net stable funding ratio, covering a period of one year. The required amount of stable funding of a certain corporation is a function of its liquidity characteristics and the remaining periods to redemption of the different assets held by that corporation, as well as its off-balance sheet exposure. In accordance with the Directive, the required net stable funding ratio is 100%.

		For December 31, 2022	For December 31, 2022
			percent
1.	**Consolidated**		
	Net stable funding ratio	**133%**	139%*
2	**Significant Subsidiary**		
	Bank Massad Ltd.		
	Net stable funding ratio	**150%**	151%
	Minimal net stable funding ratio required by the Supervisor of banks	**100%**	100%

* Restated.

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES

(NIS million)

A. OFF-BALANCE SHEET COMMITMENT IN RESPECT OF ACTIVITY BASED ON THE COLLECTION OF LOANS(1) AT THE END OF THE YEAR

	Consolidated and The Bank	
	December 31	
	2022	2021
Balance of loans granted out of deposits repayable to the extent of collection of the loans (2)		
Non-linked Israeli currency	**11**	14
CPI linked Israeli currency	**237**	257
Total	**248**	271

(1) Loans granted out of deposits repayable to the depositor to the extent of collection of the loans, earning a margin or a collection commission (instead of a margin).

(2) Standing loans and Government deposits made in respect thereof, in the amount of NIS 83 million, consolidated and in the Bank (December 31, 2021 - NIS 63 million consolidated and in the Bank), were not included in the above table.

Flows of collection commission and interest margins in respect of activity based on the collection of loans(1)

	Consolidated and The Bank						
	December 31						December 31
	2022						2021
	Up to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	Total	Total
Contractual future flows	**1**	**2**	**1**	**1**	**1**	**6**	7
Expected future flows, net of management's estimate of premature repayments	**1**	**2**	**1**	**1**	**-**	**5**	6
Discounted future flows, net of management's estimate of premature repayments(2)	**1**	**2**	**1**	**1**	**-**	**5**	6

(1) The balance of deposits repayable according to collection in the non-linked shekel segment does not exceed 10% of all deposits repayable according to collection, therefore the data is given in respect of all operations.

(2) The capitalization is based on a rate of 1.1% (2021 - negative rate of 1.9%).

Information as to the granting of housing loans during the year

	December 31	
	2022	2021
Loans granted out of deposits repayable to the extent of collection of the loans	**17**	26
Standing loans	**13**	13

B. OTHER CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
Improvements to premises and acquisition of new premises, equipment and software	**13**	13	**13**	12
Commitments to invest in private investment funds	**151**	83	**151**	83

C. 1. On June 29, 2004, the General Meeting of Shareholders of the Bank (following approval of the Audit Committee and the Board of Directors) approved a resolution to grant exemption from responsibility for the violation of the duty of care towards the Bank, as well as the granting of an advance commitment for indemnification of acting directors and other officers and those who will serve the Bank from time to time, including directors who are controlling shareholders of the Bank (Mr. Tzadik Bino and Mr. Gill Bino) (hereinafter: "Officers"). The said General Meeting also authorized the Board of Directors of the Bank to grant an exemption and commitment for indemnification also for former Officers of the Bank, to whom the Bank had undertaken that they would be entitled to indemnification arrangements as would be in effect from time to time with respect to Officers of the Bank. The Board of Directors of the Bank also approved the grant of an exemption and commitment for indemnification, as stated, for persons representing the Bank as Directors in other companies. All these commitments have been approved in accordance with the Companies Act, subject to the limitations therein, and subject to the provisions of the letter of commitment and indemnification.

The commitment and indemnification will apply to acts directly or indirectly connected to one or more of the events detailed in the Annex to the letter of commitment and indemnification.

The amount of the commitment and indemnification according to this resolution, to all Officers of the Bank and of its subsidiaries together, in respect of one set of events out of the events detailed in the Annex to the letter of commitment, is not to exceed 25% of the equity capital of the Bank, per the latest financial statements issued immediately prior to the actual granting of the indemnification.

In accordance with the said resolutions, letters of exemption and commitment to indemnify, as stated above, have been issued to Officers of the Bank.

On November 29, 2011, after having obtained the approvals of the Audit Committee and of the Board of Directors of the Bank, the general meeting of shareholders enlarged the scope of indebtedness and/or expenses in respect of which the Bank would be entitled to grant indemnification and this in accordance with the Companies Act (Amendment No. 3), 2005, Improving Efficiency of Enforcement by the Securities Authority Act (Legislation amendments), 2010, Increasing Enforcement in the Capital Market Act (Legislation amendments), 2011 and the Companies Act (Amendment No. 16), 2011, as well as in respect of any additional administrative proceedings, which in accordance with the law, indemnification may be paid in respect of payments made or expenses incurred in respect thereof, and to grant amended liability indemnification in accordance therewith to Directors and Officers acting at that time and which will act from time to time at the Bank and at investees of the Bank, including Directors who are controlling shareholders (Mr. Tzadik Bino and Mr. Gil Bino) and including former Officers (in accordance with a resolution of the general meeting of shareholders passed on June 29, 2004) and including other Officers of the Bank who are not Directors.

In the years 2014, 2017 and recently on July 15, 2020, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, approved the granting again of letters of indemnification to Directors having a controlling interest and/or their relatives and/or persons whom the controlling shareholders might have a personal interest in granting them letters of indemnification, in accordance with the same terms and same form of the indemnification letter granted to the other Directors and Officers of the Bank and which had also been granted to them prior to the new approval, for a period of three additional years from date of approval of the relevant General Meeting.

On November 29, 2016 the Board of Directors of the Bank approved, after obtaining the approval of the Audit Committee and the Compensation Committee, to grant letter of exemption and indemnification also to whoever acts from time to time as the CEO of MATAF Computer and Financial Operations Ltd., a wholly owned subsidiary of the Bank. The letter of exemption and indemnification obligation are in accordance with the principles, the scope and the policy approved at the Bank, as mentioned above, to officers at the Bank. On January 1, 2022, the CEO of MATAF was appointed member of Management and officiates also as Officer of the Bank.

On February 23, 2017, and thereafter on February 26, 2020, the General Meeting of Shareholders approved a compensation policy, which determined that an exemption to office holders shall not apply in respect of an act of commission or omission of the office holder regarding a decision or transaction in which a controlling shareholder or any office holder has a personal interest therein. This restriction is not to be applied to office holders which were initially appointed prior to the approval of this compensation policy by the General Meeting held on February 23, 2017, and who are entitled to exemption in accordance with decisions that had been approved in the past by the Bank.

On October 30, 2017, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, resolved to grant exemption from responsibility to officers who were initially appointed or would be appointed after February 23, 2017, and which in their respect includes a qualification according to which the exemption shall not apply in respect to an act of commission or omission by the officer regarding a decision or transaction in which a controlling shareholder or any officer has a personal interest therein, and all in accordance with the compensation policy of the Bank, as stated above. It is noted that the Bank has not tabled for reapproval by the General Meeting of Shareholders the letters of exemption granted in 2004 to Directors holding a controlling interest in the Bank.

Likewise, obligations to indemnify and exemptions in accordance with the principles approved by the General Meeting of Shareholders of June 2004 have been granted also to the following persons:

- Directors who had officiated on behalf of the Bank in its consolidated subsidiary FIBI (Suisse). It is noted that this subsidiary sold its operations in June 2017 and that during that year all its banking activity was terminated and its voluntary liquidation was concluded in May 2020.
- Directors who had officiated on behalf of the Bank in International Underwriting during the period in which this company was engaged in underwriting business. It is noted that in December 2010 this company changed its status to "an inactive underwriter", and that in December 2015, it was voluntarily liquidated.

The amount of the indemnity obligation is in accordance with the policy of the Bank in this matter.

It is noted that in the past, additional undertakings were given to Directors who had officiated in companies controlled by the Bank, which were voluntarily liquidated or sold over seven years ago.

2. In accordance with decisions taken by UBank Ltd. (hereinafter - "UBank") exemption is granted to Directors and officers of UBank (as defined in the Companies Act, 1999, including the internal auditor, the chief accounting officer and the secretary of UBank) from responsibility regarding the violation of the duty of care towards UBank.

   Furthermore, UBank has committed to indemnify the said Directors and officers (as well as Directors appointed by UBank at UBank Finance (2005) Ltd. and who are not officers of UBank) in respect of a liability or expenditure imposed upon them as a result of actions taken by them in terms of their duties as officeholders at UBank, everything in accordance with the terms detailed in the commitment to indemnify officeholders and in accordance with the principles approved in respect of officers of the First International Bank.

   Upon the merger of UBank with and into the Bank in 2015, all UBank's commitments and rights detailed in this section were transferred to the Bank.

3. Otsar Hahayal has committed to indemnify officers as defined in the Company Law, 1999. The amount of the indemnification provided by them in terms of this commitment to all its officers as a group, in respect of one or more of the events covered by this commitment, shall not exceed 33% of the equity of Otsar Hahayal according to its latest financial statements published shortly prior to the date of the actual indemnification. Upon consummation of the merger of Otsar Hahayal with and into the Bank on January 1, 2019, the commitment of Otsar Hahayal towards its Officers, including in respect of an event related to the merger, has passed to the Bank.

4. In accordance with decisions taken at Poalei Agudat Israel Bank Ltd. (hereinafter - "PAGI") exemption had been granted to Directors and Officers of PAGI (as defined in the Companies Act, 1999, including the Internal Auditor and Secretary of the bank), from responsibility for violation of the duty of care towards PAGI. Furthermore, PAGI is committed to grant the said Officers indemnity with respect to a liability or expense imposed upon them as a result of actions taken in the course of their duties at PAGI, and everything as detailed in the commitment for indemnity of Officers, and in accordance with the principles approved in respect of officers of the First International Bank.

   Upon the merger of PAGI in 2015 with and into the Bank, all PAGI's liabilities and rights detailed in this section were transferred to the Bank.

5. In accordance with the resolutions passed on August 17, 2020 by the General Meeting of Shareholders of Massad Bank Ltd. (hereinafter – "Massad") (following approval by the Audit Committee and the Board of Directors of Massad) exemption from responsibility for the violation of the duty of care regarding Massad has been granted to Directors of Massad and to Officers thereof (as defined by the Companies Act, 1999, including the internal auditor and the company secretary). Also granted to the said Officers are commitments for indemnification in respect of liability or expenditure imposed on them due to actions taken by them in fulfillment of their duties at Massad, and everything as detailed in the commitment for indemnification of Officers and in accordance with the principles applying to Officers of the First International Bank. The said resolution replaces an earlier resolution of 2013, according to which, Massad had committed to indemnify Officers, the amount of indemnification determined by the said commitment, in respect of all Officers of Massad together, regarding one or more of the stated indemnification events, was not to exceed 33% of the equity capital of Massad according to its latest financial statements published proximate prior to the actual date of indemnification. With respect to officiating Officers, the new arrangement will apply only with respect to an act of commission or omission occurring after the date of the resolution.

D. The Clearing House of the Tel-Aviv Stock Exchange (hereinafter - “the Clearing House”) established a risk fund with the purpose of securing the obligations of Clearing House members in respect to the activities of each member. The amount of the Fund is being updated once in each quarter. The share in the risk fund of each member of the Clearing House, including the Bank, is derived from the volume of operations of the member on behalf of its customers (and on its own behalf, if applicable). The share of the Bank amounts to NIS 162 million (December 31, 2021 - NIS 227 million).

According to a resolution of the Board of the Stock Exchange and the by-laws of the Clearing House the Bank is required to deposit only liquid assets as collateral (bonds of the State of Israel or cash) as required by the by-laws, and in addition to sign a pledge agreement to secure their obligations towards the Stock Exchange Clearing House regarding their operation as members of the clearing house.

In accordance with the said decisions, the Clearing House opened an account in its name with the Clearing House for the Bank, in which the Bank deposited securities as collateral in favor of the Clearing House.

In addition, the Clearing House opened a monetary account with Bank of Israel, in which may be deposited the monetary collateral provided in favor of the Clearing House by its members, whether to secure the operations of Clearing House members or secure their liability towards the risk fund of the Clearing House.

As collateral for the fulfillment of all commitments of the Bank towards the Stock Exchange Clearing House, as stated above, with no limitation of their total amount, the Bank registered on April 17, 2005, in favor of the Clearing House, a first degree fixed pledge and an assignment by way of pledge in favor of the Clearing House, on its clearing account with the Clearing House and on its clearing account with another bank (which was closed in 2020).

In April 2017, the Bank registered a first-degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to all the rights of the Bank in the account of the Clearing House with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services as a member of the Clearing House with respect to operations pertaining to assets cleared by the Clearing House, including with respect to collateral required for RTGS system operations also for Massad, which is a Stock Exchange member but not a Clearing House member. Accordingly, the Bank's obligations as a Clearing House member towards the Clearing House include also obligations in respect of the operations of Massad and its customers. In respect of such obligations of the Bank towards the Clearing House, the Bank has received from Massad a guarantee, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the Clearing House in respect of its or its customers' operations. As from 2023, the Bank provides services, as stated, also to an additional member of the Stock Exchange, in respect of his retail customers. Accordingly, the commitments of the Bank, as a member of the Stock Exchange Clearing House, towards the Clearing House, include also commitments in respect of the said operation. As part of the agreement with the said additional member of the Stock Exchange, that member is committed to indemnify the Bank in respect of any amount that the Bank would be required to pay, stemming from obligations or commitments of the Bank towards the Stock Exchange Clearing House, in respect of transactions made by customers of that Stock Exchange member.

As to the pledges to the Stock Exchange Clearing House see Note 26C below.

E. The MAOF Clearing House formed a risk fund, serving as additional security cushion in cases where the collateral deposited by a member of the Clearing House is not sufficient to cover all its liabilities. The amount of the fund is being updated once in each quarter. Each member's share in the risk fund, including the Bank, is determined by the volume of his activity in the Clearing House on behalf of its clients (and on its own behalf, if applicable).

The demand for collateral from the Bank in respect of the risk fund amounts to NIS 58 million as of December 31, 2022, in comparison with NIS 107 million on December 31, 2021.

Each of the member banks of the MAOF Clearing House is committed towards the Clearing House for the payment of any monetary charge resulting from transactions on behalf of its customers. The amounts at the balance sheet date relating to the Bank's customer transactions in respect of MAOF options are included in the balance sheet in the item “assets in respect of derivative instruments” and in the item “liabilities in respect of derivative instruments” in equal amounts based on the fair value. The balance of the liability of the Bank to the MAOF clearing house, over and above the amount stated in the balance sheet, based on the Stock Exchange models, is of NIS 218 million (December 31, 2021 - NIS 360 million).

The Bank registered in favor of the MAOF Clearing House a fixed pledge and an assignment by way of a pledge unlimited in amount on the rights in an account of MAOF securities managed in the name of the MAOF Clearing House at the Stock Exchange Clearing House (hereinafter - “the main account”). In addition, the Bank registered in favor of the MAOF Clearing House a floating pledge and an assignment by way of a pledge unlimited in amount on all securities deposited and/or to be deposited to the credit of the Bank and its consolidated subsidiaries at the Stock Exchange Clearing House, including securities deposited and/or to be deposited to the credit of the main account and to the credit of an additional account managed at the Stock Exchange Clearing House, and on the income and any other right derived there from. As aforesaid in section D above, the MAOF Clearing House also opened an account with the Bank of Israel, in which it is also possible to deposit the monetary collateral, which its members are placing in its favor. In April 2017 the Bank registered a first-degree fixed pledge and an assignment by way of a pledge in favor of the MAOF clearing house on all its rights in the account of the MAOF Clearing House with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services at the MAOF Clearing House also with respect to operations pertaining to Massad, which is a Stock Exchange member but is not a MAOF Clearing House member. Accordingly, the Bank's obligations as a MAOF Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and its customers. In respect of such obligations of the Bank towards the MAOF Clearing House, the Bank has received from Massad a guarantee, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the MAOF Clearing House in respect of its operations and its customers' operations. As from 2023, the Bank provides services, as stated, also to an additional member of the Stock Exchange, in respect of his retail customers. Accordingly, the commitments of the Bank, as a member of the Stock Exchange Clearing House, towards the Clearing House, include also commitments in respect of the said operation. As part of the agreement with the said additional member of the Stock Exchange, that member is committed to indemnify the Bank in respect of any amount that the Bank would be required to pay, stemming from obligations or commitments of the Bank towards the Stock Exchange Clearing House, in respect of transactions made by customers of that Stock Exchange member.

As to the pledge in favor of the MAOF Clearing House - see Note 26A below.

F. CLS Bank International is an inter-bank clearing house owned by the large banks in the world and is engaged in the transfer of payments resulting from currency exchange transactions, and the manner of its operation avoids the delivery risk inherent in such transactions.

The Bank is one of the three Israeli banks that serve as providers of shekel liquidity in case of a clearing default. The maximum amount of liability of the Bank in this respect amounts to NIS 1 billion, this after receiving a commitment by Bank of Israel for a parallel credit facility in this amount secured by a floating pledge on the Bank's rights to receive amounts and monetary charges in Israeli currency due and/or will be due from the Bank's customers comprising Israeli corporations.

G. The Bank Group (the Bank and its subsidiary companies) is a party to legal proceedings, including motions for approval of class actions. In the opinion of Management of the Bank and Managements of the subsidiary companies, based on legal opinions regarding the prospects of the actions, including the motions for approval of class actions, as detailed in this section, adequate provisions have been included in the financial statements, where required, to cover losses which might be sustained as a result of these actions.

Following are details of actions filed against the Bank where the amount claimed therein is material, or that by their nature have characteristics similar to those of additional actions the cumulative amount of which is material:

1. On May 8, 2018, the Bank received notice of an action and a motion for approval of the action as a class action suit in the amount of NIS 146 million (hereinafter together - "the motion").

   The Plaintiffs argue that the Bank concealed and did not disclose to its business customers the existing possibility of being classified as a "small business" and the practical significance of the classification of an account as a small business account as regards the retail price list, classified business customers under the default classification as a "large business" with no reasonable ground (thus applying to them the large business price list, which is the highest commission fee list), misled its customers and acted in order to hide both their classification as large business and their right to be defined as a small business, so that those of its customers who are entitled to be defined as a small business would continue to pay charges that do not apply to them or charges in amounts higher than those which should be payable by them.

   The group which the Plaintiffs wish to represent comprises "all customers of the Bank, past and present, who were or are entitled to be defined as a "small business" under the Banking Rules (Customer service) (Commission fees), 2008, and who paid fees not in accordance with the pricelist applying to a small business, as from date of entry into effect of the commission fee rules and until this day".
2. On May 7, 2020, the Bank received notice of a motion for approval of a class action against the Bank with respect to the charging of a broker commission on operations in securities. The Plaintiff argues that for each transaction

of purchase/sale of securities, the Bank charges a commission named by it as "broker commission", despite the fact that such a commission does not appear on the pricelist of the Bank and therefore is unlawfully charged. The Plaintiff further claims that to the extent that the matter involves a third-party expense (which, according to the pricelist, the Bank may collect) the Bank has to provide details of the rate of the commission and manner of its calculation, which the Bank does not provide. The Plaintiff notes that it is not possible to assess the total amount of the claim, however, as argued, the personal damage caused to the Plaintiff in respect of each transaction amounts to NIS 2. Accordingly, the Plaintiff assumes that the total damage caused to the class as a whole during the seven years preceding the date of the action amounts to tens of millions of NIS, if not more. As argued in the claim, similar actions have been brought also against other banks. On September 4, 2022, the Court dismissed the motion for approval of the action as a class action. An appeal against the verdict was filed on November 9, 2022.

The amount of additional exposure of the Bank and of the subsidiary companies of the Bank as of December 31, 2022, in respect of pending claims, which, in the opinion of the Bank, the possibility of their materialization, in whole or in part, is not remote and in respect of which no provision has been included, amounts to NIS 42 million.

H. 1. Following are details of actions and legal proceedings, including motions for approval of class actions against an affiliated company, Israel Credit Cards Ltd. ("ICC"), the amount claimed therein is material. In the opinion of the Management of ICC, based inter alia on legal opinions, adequate provisions in respect of such claims are included in the financial statements, where required.

(a) On June 8, 2016, an amended motion for approval of an action as a class action was filed with the Central District Court against three credit card companies including ICC (hereinafter - "the amended motion"). The amended motion replaces a previous motion submitted on April 28, 2014.

The subject matter of the motion comprises two cartel arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards. The first cartel arrangement, as argued by the Plaintiffs, refers to an arrangement for the charging of cross commission in respect of transactions made by debit cards and prepaid cards. The second cartel arrangement, as argued by the Plaintiffs, refers to the unlawful withholding of funds due to trading houses for periods of approximately twenty days after the credit card companies had received the money.

Perusal of the economic opinion, to which the amended motion refers, reveals that the amount of the claim is composed of the following main types of damage: an amount of NIS 13.5 million per year for the years 2007-2015 in respect of the damage stemming from the existence of an alleged cartel arrangement regarding the amount of the cross commission payable in immediate debit card transactions; an amount of NIS 5.3 million per year, for the years 2007-2015, in respect of the damage stemming from the existence of an alleged cartel arrangement regarding the date for the transfer of funds to trading houses in respect of immediate debit card transactions; an amount of between NIS 418 million and NIS 683 million per year for the years 2007-2015, in respect of the damage stemming from underuse of immediate debit cards due to the alleged two cartel arrangements, as above.

On March 12, 2017, a preliminary hearing of the motion was held. In its decision, the Court stated that the matter of the cross-commission in respect of the "debit" and the "pre-paid" cards, is apparently included in a verdict given by the Competition Tribunal (formerly "Anti-Trust Tribunal"), and therefore any claim raised against the determination of the cross-commission, should be raised using procedures relating to the said verdict. In view of this, the Court deferred the hearing of the motion for a class action until after the matter is settled by the Competition Tribunal.

On October 16, 2017, an action requesting declaratory relief was filed with the Competition Tribunal. Within the framework of this action, the Tribunal is requested to state that when giving the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and prepaid cards. The credit card companies, including ICC, have filed a motion for the *in limine* dismissal of the action, and on October 16, 2018, the Court ruled that the motion for *in limine* dismissal of the action requesting declaratory relief Order is admitted.

On November 29, 2018, an appeal was filed with the Supreme Court against the verdict of the Competition Tribunal.

On December 23, 2018, the Plaintiffs filed a plea with the Supreme Court sitting as a high Court of Justice, against the Competition Commissioner (formerly "Anti-Trust commissioner"), in which the Court is requested to instruct the Commissioner to act in order to clarify, cancel or change the verdict of the Competition Tribunal. The State filed its response on May 22, 2019. The hearing of the Plea was held on July 16, 2020, in which the arguments of the parties were heard at length. On the same day, the Court ruled for the rejection of the Plea with no order for costs. It was stated in the verdict that the Court does not voice an opinion regarding the question at the heart of the Plea for approval of the action as a class action. Accordingly, the class action proceedings will continue at the District Court. On April 12, 2021, a pre-trial was held in which the parties stated their arguments, at the end of the hearing, the Court suggested to the parties to refer the question of date of accountability to mediation. On July 6, 2021, the parties jointly informed the Court of their acceptance of the Court's suggestion to conduct mediation proceedings in the matter, and have started the mediation process. The last mediation meeting was held on September 7, 2022, in which the Mediator declared that she sees no point in continuing the mediation proceedings, referring the parties back to the Court.

A pretrial hearing was held on November 20, 2022, at the conclusion of which, hearing of evidence was fixed for July 2023.

Moreover, in accordance with the recommendation of the Court, the parties are continuing negotiations in an attempt to bring the case to an agreed conclusion.

(b) On May 2, 2018, ICC received notice of an action and a motion for its approval as a class action suit, filed with the Tel Aviv District Court.

It is alleged in the action that ICC had unlawfully increased the amounts of clearing commission charged to trading houses. The motion for approval relies, inter alia, on the decision of the Tel Aviv District Court in a similar case, wherein a motion for approval of an action as a class action, filed against another company, had been approved.

The Plaintiffs assess their personal damage at NIS 4,036. They did not state an amount regarding the damage to the group, but assessed it at "tens of millions of NIS". ICC had responded to the motion for approval, and the Plaintiffs responded to ICC's response. A preliminary hearing of the case was held on January 15, 2020. In the meantime, the parties have accepted the recommendation of the Court to refer the matter to mediation. On October 28, 2020, the Plaintiffs informed the Court that the mediation process had failed and accordingly, they request the continuation of the proceedings at the Court. A pre-trial hearing was held on December 17, 2020. A further pre-trial hearing was held on July 13, 2021. On July 27, 2021, the Court accepted in part the motion of the Plaintiffs for the disclosure of documents, and fixed dates for submission of summing-up briefs on behalf of the parties. Within the framework of mediation proceedings being conducted by the parties, the parties have reached agreement in principle regarding a compromise arrangement, and they are studiously working these days on drafting the compromise arrangement.

(c) On July 22, 2018, an action was filed with the Tel Aviv District Court together with a motion for approval of the action as a class action, against ICC and against two additional credit card companies. The subject matter of the action is transactions considered "no document transactions" (mainly transactions effected by telephone) made by members of the class with trading houses operating in the "direct marketing" field. It is claimed in the motion that such trading houses utilized the weakness of the senior citizen population, unlawfully charging their credit cards in respect of many transactions, as well as charging them with additional amounts that had not been approved by them. The Plaintiff argues that the credit card companies are engaged in clearing agreements with the "direct marketing" trading houses, thus enabling them to operate. The Plaintiff states the amount of the damage for the whole class, which he purports to represent, at NIS 900 million. The Defendants submitted their response to the motion on March 24, 2019. A pre-trial hearing of the case was held on January 7, 2020, at the conclusion of which, the Court instructed the representative of the Plaintiff to prepare a shortlist of the document required for disclosure and perusal. On January 26, 2020, the Plaintiff submitted the shortlist, and on March 8, 2020, ICC submitted its response to the shortlist. The Plaintiff submitted on October 6, 2020, its reaction to the response to the amended motion for disclosure. On March 3, 2021, the Court decided to dismiss the motion for disclosure. An additional pre-trial hearing was held on June 2, 2021. An additional hearing was fixed for October 21, 2021. On June 11, 2021, the Court ordered the delivery of the argument briefs to the Attorney General to the Government, in order for him to decide whether to take part in the proceedings. On December 27, 2021, the Attorney General to the Government informed of his appearance in the proceedings, and has submitted a position on his behalf. A further hearing was held on January 6, 2022, in which the parties stated their arguments with respect to the position of the Attorney General to the Government. On June 29, 2022, ICC submitted its summing-up brief regarding the motion, and on July 14, 2022, the Plaintiffs submitted their response summing-up brief. On August 21, 2022, the District Court issued a verdict dismissing the motion for approval. On November 13, 2022, the Plaintiffs filed an appeal against the verdict of the District Court. Hearing of the appeal was fixed for September 27, 2023.

(d) On May 14, 2020, an action was filed against ICC with the District Court-Central Region together with a motion for approval of the action as a class action. As argued in the action, the notice delivered to the Plaintiff regarding future charges in respect of use of a credit card, contained flaws requiring determination that the notice does not fulfill the notification duties required by law. The Plaintiff states its personal monetary damage at an amount of NIS 13.5 and the non-monetary damage at an amount of NIS 100, but does not state the amount of the damage for the whole class. A pre-trial hearing of the case was held on April 7, 2021. The Court recommended that the parties conduct negotiations in order to reach an agreed arrangement. Whereas the negotiations between the parties did not reach a compromise, the parties submitted on June 6, 2021, a joint request for the fixing of a date for the hearing of evidence. On April 7, 2022, an additional pretrial of the case was held, at the conclusion of which, the Court advised the parties to renew negotiations between them, either directly or through a mediator, after which, the parties announced that they were unsuccessful in reaching an understanding. The Plaintiff then requested permission to file for perusal of the Court the position of the Supervisor of Banks submitted in another action against another company. Following the study of the position of the Supervisor of Banks, the Court advised the parties to try again the reaching of an arrangement, while even recommending a joint mediation process in respect of the two proceedings. ICC has to submit its position regarding this proposal until March 22, 2023.

(e) On December 8, 2020, an action was filed against Isracard Ltd., Europay (EuroCard) Israel Ltd., Premium Express Ltd., ICC and Diners Club Israel Ltd., with the Tel Aviv District Court together with a motion for approval of the action as a class action ("the approval motion"). The Plaintiff argues that Respondents make illegitimate and prohibited use of the data base at their disposal (both by power of them being issuers of credit cards as well as operating as clearing agents), and this without obtaining the informed consent of their customers. It is also argued that the Respondents disclose to third parties personal data of their customers; conduct advertising targeting on the basis of the said characterization for the purpose of promoting sales by third parties; conduct the monitoring of their customers; and make use of their customers' data for the sale of statistical information. As estimated by the Plaintiff, the amount of relief for the class is NIS 150 million. On June 27, 2021, ICC and Diners submitted their response to the approval motion, and on September 29, 2021, the reaction of the Plaintiff to the response of the Respondents was submitted. A first pretrial hearing was held on September 6, 2022, in which the parties restated their arguments. On November 25, 2022, the parties informed the Court of their consent to refer the dispute to mediation proceedings.

2. The amount of exposure regarding legal actions served against ICC, the realization of which, in whole or in part, is reasonably possible, totals NIS 236 million.

3. On December 14, 2016, the Director of Value Added Tax (hereinafter - "the VAT Director") issued to ICC VAT assessments for charge periods from January 2012 to August 2016. The sum charged in the assessments, including interest and linkage increments, amounts to NIS 48 million. ICC disputes the position of the VAT Director, and is of the opinion that it has good arguments supporting its position. On March 9, 2017, ICC filed an appeal against these assessments. To the best knowledge of ICC, assessments in this matter have also been received by its competitors.

   On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal and also increasing the amount charged in the assessments to NIS 75 million (including interest and linkage increments). If the position of ICC would be rejected by the Court, it may be liable in respect of the issues raised in the VAT assessment, also for periods following the period of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Lod District Court.

   On November 3, 2019, the Supreme Court approved an agreed motion for the consolidation of the hearing of the appeal with those of the appeals filed by competitors of ICC. A pre-trial was held on March 5, 2020.

   Hearing of evidence was held in June and July 2022. In the reported period, the parties conducted negotiations in respect of a compromise regarding the said assessments. As of date of publication of the financial statements, the parties had not reached an agreement, and accordingly, ICC has to submit a summing-up brief in the case until March 15, 2023. On February 12, 2023, ICC received VAT assessments for the years 2018-2022 in a total amount of NIS 192 million, including interest and linkage increments. The issues raised in the said assessments are in principle similar to those contained in the assessments issued in respect of prior tax periods.

   ICC estimates the total amount of exposure in respect of which no allowance is included in its financial statements regarding this matter, at NIS 191 million.

I. Since July 2006, the Accountant General announces the appointment of certain entities, including the Bank, as principal market makers for Government bonds, in accordance with Section 6(a) to the State Loans Law, 1979, this as part of the reform initiated by the Ministry of Finance regarding the process of issuance of Government bonds and the operations in the secondary capital market for bonds, in order to encourage entry of additional players into the market, the increase in liquidity and transparency in trading and for reducing the cost of raising funds by the Government. The Bank began operations as a market maker on September 4, 2006.

As part of the market making activity, the Treasury has granted to the Bank a Government bond borrowing facility up to an amount of NIS 1 billion, this in order to cover short sale of bonds transactions as part of the market making activity. Against borrowings in this framework, the Bank deposits funds with the treasury in the amount of bond borrowings, which serve as a collateral for such borrowings. See also Note 26I.

J. The practice of the Bank is to grant from time to time and under accepted circumstances in banking business, letters of indemnity limited and unlimited in amounts and in period, and all in the ordinary course of business of the Bank. Among other things, letters of indemnity are granted within the framework of the clearing house provisions regarding lost checks, to receivers, liquidators, special managers, Courts of Law or Debt Execution Offices, to various providers of services, or as part of a contractual liability and to credit card companies. Furthermore, the Bank and International Issuances grant from time to time indemnity to trustees for debt notes issued by them, subject to the terms of the relevant trust documents.

K. Within the framework of the voluntary liquidation process of FIBI (Suisse) Ltd., which was concluded on May 25, 2020, Deloitte AG (hereinafter - "Deloitte") had been appointed in August 2018, as liquidators of the Extension. As part of their appointment as Liquidators, different indemnifications had been granted to Deloitte by FIBI (Suisse) and by the Bank in connection with the liquidation.

L. The Bank issues debit card with the three credit card companies, in accordance with agreements described below. During the year 2020, the Bank has signed an extension and update of two joint issuance agreement of debit card with the credit card companies, as detailed below:

- In the month of July, an agreement for joint issuance was signed with Isracard and/or Europay (Eurocard) Israel Ltd. According to the agreement, the parties to the agreement will continue the joint issuance of debit cards to the customers of the Bank. The extension of the agreement updated the commercial and operational terms, which were determined between the parties in the previous agreements.
- In the month of December, a joint issuance agreement was signed with ICC and Diners Club Ltd., a fully owned company of ICC. According to the agreement, the parties will continue the joint issuance of credit cards to the customers of the Bank. The extension of the agreement updated the commercial and operational terms which were determined between the parties in the previous agreements.

During 2019, the Bank has signed a joint issuance agreement with Max It Finance Ltd. (formerly- Leumicard Ltd.) ("Max"). According to the agreement, the parties issue credit cards to the customers of the Bank, which their operation is performed by Max. In the aforementioned agreement, the rights and duties of the parties, as well as additional arrangements in respect of the described activity, were determined.

NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS

A. To secure liabilities to the MAOF Clearing House for its customers and for itself as said in Note 25.E, the Bank has pledged securities in favor of the MAOF Clearing House.

Set out below is the balance of the collateral which the Bank provided to the MAOF Clearing House (in NIS million):

	December 31, 2022		Average balance for 2022		Highest balance for 2022	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	**30**	**113**	**57**	**196**	**83**	**362**
Cash deposited as collateral	**28**	**58**	**30**	**27**	**40**	**58**

	December 31, 2021		Average balance for 2021		Highest balance for 2021	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	81	397	85	433	93	473
Cash deposited as collateral	26	-	27	-	29	-

B. The Bank is a member of the Euroclear settlement system, which is a clearing house for securities that are traded in international markets. For the purpose of activity via this settlement system and as surety for a credit line in the amount of USD 40 million (or in a higher amount agreed/ to be agreed from time to time with the Bank in exceptional cases, not to exceed USD 200 million) which the settlement system operator provided to the Bank, the Bank created a pledge at an unlimited amount of cash and securities for securing the activity framework.

C. To secure the obligation of the Bank to the Stock Exchange Clearing House as said in Note 25D, the Bank has pledged cash and securities in favor of the Stock Exchange Clearing House.

Set out below is the balance of the collateral which the Bank provided to the Stock Exchange Clearing House (in NIS million):

	December 31		Average balance		Highest balance	
	2022	2021	2022	2021	2022	2021
Securities	**84**	172	**113**	165	**160**	172
Cash deposited as collateral	**78**	55	**62**	52	**78**	55

D. (1) As collateral for credit from Bank of Israel, the Bank and consolidated subsidiary, have created bonds according to which they pledged under a fixed first degree pledge unlimited in amount, all assets and rights deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities accounts managed in the name of Bank of Israel at the Clearing House of the Tel Aviv stock Exchange Ltd. as well as at the Euroclear Clearing House, including all monies and all securities deposited or registered in the said accounts. Securities deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities account held at the Euroclear Clearing House are also pledge under a floating pledge.

Set out below are data on the bonds that were pledged to the Bank of Israel (in NIS million):

	December 31		Average balance		Highest balance	
	2022	2021	2022	2021	2022	2021
Securities	**4,357**	4,352	**4,354**	3,774	**4,357**	4,352

NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS (CONT'D)

(2) Furthermore, the Bank and a subsidiary company thereof had created bonds, according to which, a fixed first degree pledge was registered in favor of Bank of Israel together with an assignment by way of a pledge on all their assets and rights present and future, regarding Nostro accounts and deposit accounts held with Bank of Israel (whether in Israeli currency or in foreign currency), including all funds existing from time to time in these accounts and including earnings from their securities and any right deriving from such securities deposited therein.

Furthermore, and in accordance with the terms of the bonds, Bank of Israel has the right of lien and setoff with respect to all assets of the Bank and of its subsidiary company, in possession or in control of Bank of Israel, including assets delivered to Bank of Israel as security, for safekeeping or in any other way in accordance with any provision of the law.

See Note 11 regarding cash balances and deposits with Bank of Israel.

(3) See note 25.F. in respect of a floating pledge in favor of the Bank of Israel, on the Bank's rights to receive amounts and debits in NIS, which it is eligible or will be eligible to, from its customers, which are Israeli corporations, in the framework of the Bank's activity as provider in the CLS clearing house.

E. The Bank form contractual associations with foreign banks and foreign brokers in CSA (Credit Support Annex) annexes to ISDA agreements that are intended to minimize the mutual credit risks arising between banks in derivatives trading. Under the annexes, a periodic measurement is made of the value of the stock of derivatives transactions that were conducted between the parties, and if the net exposure of one of the parties exceeds a pre-defined threshold, then that party receives from the other party monetary deposits to cover a part of the exposure.

As of December 31, 2022, the Bank has transferred deposits in favor of counterparties and customers in the amount of NIS 268 million (December 31, 2021 - NIS 150 million). At December 31, 2022 the Bank has received deposits from counterparties and customers in the amount of NIS 347 million (December 31, 2021 - NIS 135 million).

In addition, to secure the fulfillment of the obligation and/or the credit exposure of the Bank as above, the Bank deposited cash deposits with counterparties, as initial margins, that as of December 31, 2022 amounted to NIS 85 million (December 31, 2021 - NIS 76 million).

F. For the purpose of providing services to customers of the Bank and for the "Nostro" operations of the Bank in everything relating to certain operations in foreign securities, including global future contracts, options, lending of securities and short sales, the bank has engaged with foreign banks and/or foreign brokers (hereinafter - "the foreign brokers") for the purpose of obtaining global custody services, clearing and brokerage services, margin activity services and other global services. According to agreements with the foreign brokers, certain securities and cash of the Bank (Nostro) deposited with any of the foreign brokers, serve as collateral (by way of pledge, lien or transfer of ownership) in favor of the foreign broker securing the obligations of the Bank and/or covering the credit exposure of the foreign broker with respect to the operations of customers of the Bank and/or the Bank's Nostro operations. Furthermore, each of the foreign brokers has the right of lien and setoff with respect to cash balances standing to the credit of the Bank with the broker, including cash deposits made with the foreign broker as collateral with respect to the fulfillment of the Bank's obligations and/or the said credit exposure. Various arrangements have been made by the Bank with each of the foreign brokers regarding the value of the collateral and/or the amounts of cash on deposit with the foreign broker. As of December 31, 2022, the value of Nostro securities deposited by the Bank as collateral with all the foreign brokers amounted to NIS 88 million (December 31, 2021 - NIS 79 million), and the cash balances standing to the credit of the Bank with all the foreign brokers (including cash deposits, as stated) amounted to a total of NIS 1,413 million (December 31, 2021 - NIS 1,208 million).

NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS (CONT'D)

G. The Bank receives from a foreign bank foreign currency clearing services through the CLS clearing house. In order to secure the credit exposure of the foreign bank to the Bank with respect to the clearing of foreign currency transactions through the CLS, the Bank had deposited with the foreign bank a cash amount of US$ 50 million. The deposit serves as collateral and is subject to lien and offsetting rights of the foreign bank in connection with the clearing activity in the CLS clearing house.

H. Set out below are details of the securities that were pledged to lenders as stated in A, C, D and F where the lenders are not entitled to sell or pledge them (in NIS million):

	December 31,	
	2022	**2021**
Securities held to maturity	**1,583**	1,730
Bonds available for sale	**3,089**	3,351
Total	**4,672**	5,081

I. Set out below are the sources of the securities that were received and which the Bank is entitled to sell (in NIS million):

	December 31,	
	2022	**2021**
Securities received in securities lending transactions in return for cash	**12**	845
Securities received under non-collateralized securities lending transaction	**127**	129
Total	**139**	974

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS

1. Face value of derivative instruments

	December 31, 2022			December 31, 2021		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts						
Forward and Futures Contracts	**780**	**3,135**	**3,915**	661	1,550	2,211
Options written	**-**	**258**	**258**	-	40	40
Options purchased	**-**	**258**	**258**	-	40	40
SWAPS(1)	**3,536**	**13,774**	**17,310**	4,083	11,841	15,924
Total(2)	**4,316**	**17,425**	**21,741**	4,744	13,471	18,215
Of which: Hedging derivatives(3)	**3,522**	**-**	**3,522**	3,245	-	3,245
Foreign currency contracts						
Forward and Futures Contracts(4)	**18,364**	**34,259**	**52,623**	22,501	22,824	45,325
Options written	**-**	**6,985**	**6,985**	-	14,084	14,084
Options purchased	**-**	**7,250**	**7,250**	-	13,866	13,866
SWAPS	**40**	**-**	**40**	51	-	51
Total	**18,404**	**48,494**	**66,898**	22,552	50,774	73,326
Contracts on shares						
Forward and Futures Contracts	**84**	**30,803**	**30,887**	38	34,252	34,290
Options written	**-**	**12,127**	**12,127**	-	19,211	19,211
Options purchased(5)	**1**	**12,127**	**12,128**	1	19,209	19,210
Total	**85**	**55,057**	**55,142**	39	72,672	72,711
Commodities and other contracts						
Forward and Futures Contracts	**-**	**132**	**132**	-	279	279
Options written	**-**	**-**	**-**	-	419	419
Options purchased	**-**	**-**	**-**	-	419	419
Total	**-**	**132**	**132**	-	1,117	1,117
Total face value	**22,805**	**121,108**	**143,913**	27,335	138,034	165,369

(1) Of which: SWAPS the Bank is paying fixed interest in an amount of NIS 10,764 million (31.12.21 - NIS 9,495 million).
(2) Of which: NIS-CPI swap contracts in an amount of NIS 782 million (31.12.21 - NIS 668 million).
(3) The Bank performs protection transactions by IRS derivatives in order to hedge the accounting fair value of bonds. These transactions hedge the interest risk imbedded in foreign currency bonds having fixed interest and long duration.
(4) Of which: foreign currency swap spot contracts in an amount of NIS 1,741 million (31.12.21 - NIS 1,336 million).
(5) Of which: Traded on the Stock Exchange in an amount of NIS 12,127 million (31.12.21 - NIS 19,208 million).

NOTE 27 -DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

2. Gross fair value of derivative instruments

	December 31, 2022					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	**220**	**299**	**519**	**17**	**284**	**301**
Of which: Hedging derivatives	**217**	**-**	**217**	**-**	**-**	**-**
Foreign currency contracts	**126**	**877**	**1,003**	**35**	**684**	**719**
Contracts on shares	**1**	**1,300**	**1,301**	**-**	**1,300**	**1,300**
Commodities and other contracts	**-**	**2**	**2**	**-**	**2**	**2**
Total assets/liabilities in respect of derivatives gross(1)	**347**	**2,478**	**2,825**	**52**	**2,270**	**2,322**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**347**	**2,478**	**2,825**	**52**	**2,270**	**2,322**
Of which: not subject to net settlement arrangement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**

	December 31, 2021					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	15	142	157	126	130	256
Of which: Hedging	14	-	14	110	-	110
Foreign currency contracts	40	515	555	59	726	785
Contracts on shares	-	951	951	-	951	951
Commodities and other contracts	-	46	46	-	46	46
Total assets/liabilities in respect of derivatives gross(1)	55	1,654	1,709	185	1,853	2,038
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	55	1,654	1,709	185	1,853	2,038
Of which: not subject to net settlement arrangement or similar arrangements	-	-	-	-	-	-

(1) Of which: 31.12.21 Gross fair value of liabilities in respect of embedded derivatives in an amount of NIS 1 million.

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

B. ACCOUNTING HEDGE

General

The Bank is exposed to market risks, including basis risks and interest risks. Basis risk is the existing or future risk to the income or capital of the Group which can materialize as a result from changes in the CPI or the exchange rates of foreign currency due to the difference between the value of the assets to the value of the liabilities. Interest risk is the risk to the earnings or capital deriving from fluctuations in the interest rates. Changes in the interest rates affect the Bank's earnings by change in net earnings, and the value of the Bank's assets, its liabilities and off-balance sheet instruments, since the present value of future cash flows (and even the cash flows themselves) changes when a change occur in the interest rates. As part of the overall strategy of the Bank to manage the level of exposure to basis and interest risks, the Bank uses derivative instruments such as foreign currency and CPI forwards, foreign currency options and interest rate swaps (swapping fixed interest rate with variable interest rate). The Bank have derivatives designated and qualified as fair value hedges.

If a derivative is not designated as qualified hedging, the derivative is stated according to fair value and changes in the fair value are stated on a current basis in the profit and loss statement.

Fair value hedges

The Bank designates certain derivatives as fair value hedges. The change in the fair value of the derivatives, hedging the exposure to changes in the fair value of the underlying asset, is recognized on a current basis in the profit and loss statement, as well as the change in the fair value of the hedged instrument, which can be attributed to the hedged risk.

	For the year ended December 31, 2022	For the year ended December 31, 2021
	Interest income (expenses)	Interest income (expenses)
1. Effect of accounting of fair value Hedge on profit (loss)		
Profit from fair value Hedge		
Interest contracts		
- Hedged items	**(299)**	(130)
- Hedging derivatives	**293**	82

	December 31, 2022		December 31, 2021	
		Cumulative fair value adjustments increasing the book value		Cumulative fair value adjustments increasing the book value
	Book value	Existing hedge relation	Book value	Existing hedge relation
2. Items Hedged by fair value Hedge				
Securities- debt instruments classified as available for sale	**3,494**	**(223)**	3,544	78

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

	For the year ended December 31, 2022	For the year ended December 31, 2021
	Profit (loss) recognized in income (expenses) from activity in derivative instruments(1)	Profit (loss) recognized in income (expenses) from activity in derivative instruments(1)
3. Effect of derivatives which were not designated as hedging instruments on statement of income		
Derivatives which were not designated as hedging instruments		
- Interest contracts	**127**	30
- Foreign currency contracts	**1,481**	(476)
- Share contracts	**8**	6

(1) Included in the item non-interest financing income (expenses).

C. Credit risk in respect of derivatives instruments, according to transaction counterparty on a consolidated basis(1)

	December 31, 2022						
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Institutional entities	Others	Total
Balance sheet balance of assets in respect of derivative instruments	**674**	**595**	**329**	**-**	**948**	**279**	**2,825**
Gross amounts not offset in the balance sheet:							
Credit risk mitigation in respect of financial instruments	**-**	**(391)**	**(65)**	**-**	**(66)**	**(63)**	**(585)**
Credit risk mitigation in respect of cash collateral received	**-**	**(102)**	**(211)**	**-**	**(410)**	**(1)**	**(724)**
Net amount of assets in respect of derivative instruments- reflecting proforma, if the entity performed setoff of assets and liabilities	**674**	**102**	**53**	**-**	**472**	**215**	**1,516**
Adjustment of net balance sheet balance to balance sheet credit risk	**(674)**	**(44)**	**(50)**	**-**	**-**	**(1)**	**(769)**
Balance sheet credit risk in respect of derivatives instruments	**-**	**58**	**3**	**-**	**472**	**214**	**747**
Net off balance sheet credit risk in respect of derivative instruments(2)	**-**	**246**	**33**	**23**	**1,712**	**453**	**2,467**
Total credit risk in respect of derivative instruments	**-**	**304**	**36**	**23**	**2,184**	**667**	**3,214**
Balance sheet balance of liabilities in respect of derivative instruments	**84**	**1,007**	**163**	**103**	**728**	**237**	**2,322**
Gross amounts not offset in the balance sheet:							
Financial instruments	**-**	**(391)**	**(65)**	**-**	**(66)**	**(63)**	**(585)**
Cash collateral which was attached by a lien	**-**	**(122)**	**(11)**	**(94)**	**(13)**	**-**	**(240)**
Net amount of liabilities in respect of derivative instruments	**84**	**494**	**87**	**9**	**649**	**174**	**1,497**

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

						December 31, 2021
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	297	427	357	-	628	1,709
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments (1)	-	(205)	(38)	-	(294)	(537)
Credit risk mitigation in respect of cash collateral received	-	(49)	(5)	-	(189)	(243)
Net amount of assets in respect of derivative instruments	297	173	314	-	145	929
Off balance sheet credit risk in respect of derivative instruments(2)	-	285	64	-	1,828	2,177
Off balance sheet credit risk mitigation	-	(136)	(28)	-	(1,382)	(1,546)
Net off balance sheet credit risk in respect of derivative instruments	-	149	36	-	446	631
Total credit risk in respect of derivative instruments	297	322	350	-	591	1,560
Balance sheet balance of liabilities in respect of derivative instruments	173	341	315	-	1,209	2,038
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(205)	(38)	-	(171)	(414)
Cash collateral which was attached by a lien	-	(45)	(5)	-	-	(50)
Net amount of liabilities in respect of derivative instruments	173	91	272	-	1,038	1,574

(1) 31.12.21 - The fair value of derivative instruments subject to netting agreements amounts to NIS 414 million, government bonds received as collateral amounts to NIS 95 million, shares received as collateral amounts to NIS 26 million and corporate bonds received as collateral amounts to NIS 2 million.

(2) The difference, if positive, between total amounts in respect of derivative instruments (including in respect of derivative instruments having a negative fair value) as computed for the purpose of limitations on indebtedness of a single borrower, before credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

NOTE 27 -DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

D. Maturity dates (stated value amounts): year-end balance on consolidated basis

	December 31, 2022				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	**102**	**429**	**250**	**-**	**781**
- Other	**3,689**	**6,208**	**7,658**	**3,405**	**20,960**
Foreign currency contracts	**51,220**	**15,341**	**337**	**-**	**66,898**
Contracts of shares	**52,713**	**1,846**	**583**	**-**	**55,142**
Commodities and other contracts	**132**	**-**	**-**	**-**	**132**
Total	**107,856**	**23,824**	**8,828**	**3,405**	**143,913**

	December 31, 2021				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Total	132,181	17,592	12,291	3,305	165,369

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS

A. DEFINITIONS

The reporting on segments of operations is in accordance with the format and classifications established in the Public Reporting Directives of the Banking Supervision Department, as detailed below:

- **Private banking segment** - private individuals the balance of their financial asset portfolio, on a consolidated basis, held with the bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.

Where the income turnover of business customer does not represent its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtedness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, business customer operating in the capital market or in the real estate segment, which indebtedness is less than NIS 100 million, the classification to customers' segments is made in accordance to the value of assets in the balance sheet.

- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.
- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks. The segment includes the Bank's share in the earning of ICC.

Principles for apportioning operating results among the different segments

- Net interest income-includes:
  - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
  - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
  - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.
- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers, according to loading methodology, as follow:
  - Direct costs include:
    - Salary and organization expenses in the branches- are loaded on the basis of the "activity index" standard, which translates activity with customers into labor inputs.
    - Computer expenses at the branches- are loaded in accordance with the number of transactions carried out by the customers.
    - Salary, organization and computer expenses of the business units at head office- are loaded in accordance with loading parameters, corresponding with the nature of activity of the customer (such as: distribution of credit balances, number and volume of transactions).
  - The indirect expenses including the expenses of the head office and computer expenses of the back-office divisions and the general computer expenses which are not classified- these expenses are loaded in accordance to the nature of the expense. Most of the indirect expenses are loaded according to the distribution of the direct expenses, and the remaining expenses according to the distribution of income.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

OPERATIONAL SUPERVISION SEGMENT INFORMATION

Consolidated	For the year ended December 31, 2022							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total
								(NIS million)
Interest income from external	2,408	2	919	290	702	13	827	5,161
Interest expense from external	479	70	151	41	360	267	(10)	1,358
Net interest income								
- From external	1,929	(68)	768	249	342	(254)	837	3,803
- Inter - segment	(209)	138	77	(12)	71	375	(440)	-
Total net interest income	1,720	70	845	237	413	121	397	3,803
Non-interest income	610	88	382	75	156	197	103	1,611
Total income	2,330	158	1,227	312	569	318	500	5,414
Expenses from credit losses	41	1	24	42	13	2	-	123
Operating and other expenses	1,440	76	674	113	201	177	74	2,755
Operating profit before taxes	849	81	529	157	355	139	426	2,536
Provision for taxes on operating profit	296	28	184	55	124	48	149	884
Operating profit after taxes	553	53	345	102	231	91	277	1,652
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	74	74
Net profit:								
Before attribution to non-controlling interests	553	53	345	102	231	91	351	1,726
Attributed to non-controlling interests	(43)	(1)	(6)	(3)	(1)	-	(5)	(59)
Net profit attributed to shareholders of the Bank	510	52	339	99	230	91	346	1,667
Average balance of assets(1)	56,656	111	21,502	7,291	23,381	1,572	76,588	187,101
of which: Investee Company(1)	-	-	-	-	-	-	698	698
of which: Average balance of credit to the public(1)	56,656	111	21,502	7,291	23,381	1,572	-	110,513
Balance of credit to the public	(4)59,045	97	20,468	8,215	27,389	2,010	-	117,224
Balance of non-accruing debts	241	-	234	35	34	-	-	544
Balance of debts in arrears over 90 days	13	-	8	-	-	-	-	21
Average balance of liabilities(1)	66,970	9,787	27,225	6,980	18,090	32,022	15,537	176,611
of which: Average balance of deposits from the public(1)	66,606	9,781	26,987	6,864	17,339	31,997	-	159,574
Balance of deposits from the public	68,122	10,430	27,325	6,834	17,753	37,805	-	168,269
Average balance of risk assets(1)(2)	37,489	346	20,384	8,494	23,360	1,538	6,393	98,004
Balance of risk assets(2)	38,197	320	19,574	9,053	26,551	1,210	8,731	103,636
Average balance of assets under management(1)(3)	38,395	25,265	20,356	4,117	16,056	310,106	-	414,295
Segmentation of net interest income:								
- Earnings from credit - granting activity	1,144	1	601	177	332	11	-	2,266
- Earnings from deposits - taking activity	545	69	226	52	59	109	-	1,060
- Other	31	-	18	8	22	1	397	477
Total net interest income	1,720	70	845	237	413	121	397	3,803

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,414 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

OPERATIONAL SUPERVISION SEGMENT INFORMATION (CON'T)

Consolidated	For the year ended December 31, 2021							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total activity in Israel
								(NIS million)
Interest income from external	1,823	15	715	150	291	(1)	157	3,150
Interest expense from external	139	20	41	8	94	36	18	356
Net interest income								
- From external	1,684	(5)	674	142	197	(37)	139	2,794
- Inter - segment	(473)	21	(65)	8	94	70	345	-
Total net interest income	1,211	16	609	150	291	33	484	2,794
Non-interest income	635	92	358	64	109	201	297	1,756
Total income	1,846	108	967	214	400	234	781	4,550
Expenses (income) from credit losses	(5)	1	(115)	(21)	(73)	(3)	-	(216)
Operating and other expenses	1,384	72	640	100	174	176	106	2,652
Operating profit before taxes	467	35	442	135	299	61	675	2,114
Provision for taxes on operating profit	161	12	152	47	103	21	232	728
Operating profit after taxes	306	23	290	88	196	40	443	1,386
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	69	69
Net profit:								
Before attribution to non-controlling interests	306	23	290	88	196	40	512	1,455
Attributed to non-controlling interests	(32)	(1)	(5)	(3)	-	-	(9)	(50)
Net profit attributed to shareholders of the Bank	274	22	285	85	196	40	503	1,405
Average balance of assets(1)	51,325	68	19,325	5,623	16,978	1,139	77,915	172,373
of which: Investee Company(1)	-	-	-	-	-	-	674	674
of which: Average balance of credit to the public(1)	51,325	68	19,325	5,623	16,978	1,139	-	94,458
Balance of credit to the public	(4)54,882	95	21,044	6,101	18,571	1,547	-	102,240
Balance of non-accruing debts*	103	-	200	69	69	-	-	441
Balance in of debts arrears over 90 days*	189	-	6	1	1	-	-	197
Average balance of liabilities(1)	64,312	9,074	24,809	5,949	13,519	30,555	13,905	162,123
of which: Average balance of deposits from the public(1)	63,497	9,033	24,374	5,813	12,830	30,401	-	145,948
Balance of deposits from the public	63,792	9,253	25,949	7,028	15,553	31,872	-	153,447
Average balance of risk assets(1)(2)	34,201	234	18,470	6,268	18,058	1,601	7,329	86,161
Balance of risk assets(2)	35,600	244	19,122	6,800	19,627	1,515	6,080	88,988
Average balance of assets under management(1)(3)	37,986	22,320	19,213	3,554	17,467	330,622	-	431,162
Segmentation of net interest income:								
- Earnings from credit - granting activity	1,103	1	583	145	284	11	-	2,127
- Earnings from deposits - taking activity	116	15	30	6	12	22	-	201
- Other	(8)	-	(4)	(1)	(5)	-	484	466
Total net interest income	1,211	16	609	150	291	33	484	2,794

* Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts.

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,338 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

OPERATIONAL SUPERVISION SEGMENT INFORMATION (CON'T)

Consolidated	For the year ended December 31, 2020							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total activity in Israel
								(NIS million)
Interest income from external	1,646	7	671	158	232	(8)	172	2,878
Interest expense from external	105	29	46	10	37	14	-	241
Net interest income								
- From external	1,541	(22)	625	148	195	(22)	172	2,637
- Inter - segment	(323)	46	(2)	7	109	61	102	-
Total net interest income	1,218	24	623	155	304	39	274	2,637
Non-interest income	586	77	344	71	100	212	133	1,523
Total income	1,804	101	967	226	404	251	407	4,160
Expenses from credit losses	117	1	162	84	98	2	-	464
Operating and other expenses	1,395	67	621	100	152	174	60	2,569
Operating profit before taxes	292	33	184	42	154	75	347	1,127
Provision for taxes on operating profit	105	11	58	11	44	26	113	368
Operating profit after taxes	187	22	126	31	110	49	234	759
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	29	29
Net profit:								
Before attribution to non-controlling interests	187	22	126	31	110	49	263	788
Attributed to non-controlling interests	(26)	-	(4)	(2)	(1)	-	(5)	(38)
Net profit attributed to shareholders of the Bank	161	22	122	29	109	49	258	750
Average balance of assets(1)	47,443	50	17,827	5,592	17,425	1,405	62,438	152,180
of which: Investee Company(1)	-	-	-	-	-	-	617	617
of which: Average balance of credit to the public(1)	47,443	50	17,827	5,592	17,425	1,405	-	89,742
Balance of credit to the public	(4)49,687	70	18,876	5,385	16,724	1,505	-	92,247
Balance of impaired debts	190	-	231	78	78	-	-	577
Balance of debts in arrears over 90 days	174	-	36	-	7	-	-	217
Average balance of liabilities(1)	60,059	8,698	22,255	5,589	13,162	22,665	10,630	143,058
of which: Average balance of deposits from the public(1)	59,151	8,666	21,759	5,413	12,317	22,553	-	129,859
Balance of deposits from the public	63,338	9,097	24,358	5,707	12,867	26,310	-	141,677
Average balance of risk assets(1)(2)	32,393	207	17,441	6,564	17,761	1,606	7,321	83,293
Balance of risk assets(2)	32,960	214	17,720	5,982	17,624	1,718	7,597	83,815
Average balance of assets under management(1)(3)	32,799	17,287	15,775	3,497	12,373	248,302	-	330,033
Segmentation of net interest income:								
- Earnings from credit - granting activity	1,073	-	582	148	296	14	-	2,113
- Earnings from deposits - taking activity	156	24	47	9	14	26	-	276
- Other	(11)	-	(6)	(2)	(6)	(1)	274	248
Total net interest income	1,218	24	623	155	304	39	274	2,637

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,253 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

PRIVATE INDIVIDUALS - HOUSEHOLD AND PRIVATE BANKING - ACTIVITY IN ISRAEL

Consolidated	For the year ended December 31, 2022							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	1,421	20	967	2,408	-	2	2	2,410
Interest expenses for externals	-	-	479	479	-	70	70	549
Net interest income								
- From externals	1,421	20	488	1,929	-	(68)	(68)	1,861
- Inter-segmental	(939)	(8)	738	(209)	-	138	138	(71)
Total net interest income	482	12	1,226	1,720	-	70	70	1,790
Non-interest income	13	102	495	610	1	87	88	698
Total income	495	114	1,721	2,330	1	157	158	2,488
Expenses from credit losses	25	-	16	41	-	1	1	42
Operating and other expenses	190	31	1,219	1,440	-	76	76	1,516
Profit before taxes	280	83	486	849	1	80	81	930
Provision for taxes on profit	98	29	169	296	-	28	28	324
Net profit:								
Before attribution to non-controlling interests	182	54	317	553	1	52	53	606
Attributed to non-controlling interests	-	(3)	(40)	(43)	-	(1)	(1)	(44)
Net profit attributed to shareholders of the Bank	182	51	277	510	1	51	52	562
Average balance of assets(1)	34,470	3,077	19,109	56,656	33	78	111	56,767
Of which: average balance of credit to the public (1)	34,470	3,077	19,109	56,656	33	78	111	56,767
Balance of credit to the public at the end of the reported period	(4)35,474	4,062	19,509	59,045	46	51	97	59,142
Balance of non-accruing debts	145	-	96	241	-	-	-	241
Balance of debts in arrears of more than 90 days	-	-	13	13	-	-	-	13
Average balance of liabilities(1)	311	47	66,612	66,970	1	9,786	9,787	76,757
Of which: average balance of deposit from the public (1)	-	-	66,606	66,606	-	9,781	9,781	76,387
Balance of deposits from the public at the end of the reported period	-	-	68,122	68,122	-	10,430	10,430	78,552
Average balance of risk-adjusted assets(1)(2)	18,080	3,460	15,949	37,489	41	305	346	37,835
Balance of risk-adjusted assets at the end of the reported period(2)	18,480	3,905	15,812	38,197	53	267	320	38,517
Average balance of assets under management(1)(3)	-	-	38,395	38,395	-	25,265	25,265	63,660
Segmentation of net interest income:								
- Spread from credit granting activity	465	12	667	1,144	-	1	1	1,145
- Spread from deposit taking activity	-	-	545	545	-	69	69	614
- Other	17	-	14	31	-	-	-	31
Total net interest income	482	12	1,226	1,720	-	70	70	1,790

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,414 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

PRIVATE INDIVIDUALS - HOUSEHOLD AND PRIVATE BANKING - ACTIVITY IN ISRAEL (CON'T)

Consolidated	For the year ended December 31, 2021							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	942	17	864	1,823	-	15	15	1,838
Interest expenses for externals	-	-	139	139	-	20	20	159
Net interest income								
- From externals	942	17	725	1,684	-	(5)	(5)	1,679
- Inter-segmental	(515)	(9)	51	(473)	-	21	21	(452)
Total net interest income	427	8	776	1,211	-	16	16	1,227
Non-interest income	16	96	523	635	1	91	92	727
Total income	443	104	1,299	1,846	1	107	108	1,954
Expenses (income) from credit losses	(6)	-	1	(5)	-	1	1	(4)
Operating and other expenses	192	41	1,151	1,384	-	72	72	1,456
Profit before taxes	257	63	147	467	1	34	35	502
Provision for taxes on profit	89	22	50	161	-	12	12	173
Net profit:								
Before attribution to non-controlling interests	168	41	97	306	1	22	23	329
Attributed to non-controlling interests	-	(3)	(29)	(32)	-	(1)	(1)	(33)
Net profit attributed to shareholders of the Bank	168	38	68	274	1	21	22	296
Average balance of assets(1)	30,353	2,807	18,165	51,325	28	40	68	51,393
Of which: average balance of credit to the public (1)	30,353	2,807	18,165	51,325	28	40	68	51,393
Balance of credit to the public at the end of the reported period	(4)32,260	3,868	18,754	54,882	43	52	95	54,977
Balance of non-accruing debts*	-	-	103	103	-	-	-	103
Balance of debts in arrears of more than 90 days*	167	-	22	189	-	-	-	189
Average balance of liabilities(1)	294	50	63,968	64,312	1	9,073	9,074	73,386
Of which: average balance of deposit from the public (1)	-	-	63,497	63,497	-	9,033	9,033	72,530
Balance of deposits from the public at the end of the reported period	-	-	63,792	63,792	-	9,253	9,253	73,045
Average balance of risk-adjusted assets(1)(2)	16,091	3,193	14,917	34,201	36	198	234	34,435
Balance of risk-adjusted assets at the end of the reported period(2)	17,057	3,697	14,846	35,600	47	197	244	35,844
Average balance of assets under management(1)(3)	-	-	37,986	37,986	-	22,320	22,320	60,306
Segmentation of net interest income:								
- Spread from credit granting activity	431	8	664	1,103	-	1	1	1,104
- Spread from deposit taking activity	-	-	116	116	-	15	15	131
- Other	(4)	-	(4)	(8)	-	-	-	(8)
Total net interest income	427	8	776	1,211	-	16	16	1,227

* Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts.

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,338 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

PRIVATE INDIVIDUALS - HOUSEHOLD AND PRIVATE BANKING - ACTIVITY IN ISRAEL (CON'T)

Consolidated	For the year ended December 31, 2020							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	633	14	999	1,646	-	7	7	1,653
Interest expenses for externals	-	-	105	105	-	29	29	134
Net interest income								
- From externals	633	14	894	1,541	-	(22)	(22)	1,519
- Inter-segmental	(265)	(2)	(56)	(323)	-	46	46	(277)
Total net interest income	368	12	838	1,218	-	24	24	1,242
Non-interest income	13	82	491	586	1	76	77	663
Total income	381	94	1,329	1,804	1	100	101	1,905
Expenses from credit losses	41	-	76	117	-	1	1	118
Operating and other expenses	172	48	1,175	1,395	-	67	67	1,462
Profit before taxes	168	46	78	292	1	32	33	325
Provision for taxes on profit	60	16	29	105	-	11	11	116
Net profit:								
Before attribution to non-controlling interests	108	30	49	187	1	21	22	209
Attributed to non-controlling interests	-	(2)	(24)	(26)	-	-	-	(26)
Net profit attributed to shareholders of the Bank	108	28	25	161	1	21	22	183
Average balance of assets(1)	26,964	2,626	17,853	47,443	21	29	50	47,493
Of which: average balance of credit to the public (1)	26,964	2,626	17,853	47,443	21	29	50	47,493
Balance of credit to the public at the end of the reported period	(4)28,336	3,462	17,889	49,687	31	39	70	49,757
Balance of impaired debts	36	-	154	190	-	-	-	190
Balance of debts in arrears of more than 90 days	156	-	18	174	-	-	-	174
Average balance of liabilities(1)	365	67	59,627	60,059	1	8,697	8,698	68,757
Of which: average balance of deposits from the public (1)	-	-	59,151	59,151	-	8,666	8,666	67,817
Balance of deposits from the public at the end of the reported period	-	-	63,338	63,338	-	9,097	9,097	72,435
Average balance of risk-adjusted assets(1)(2)	14,517	3,085	14,791	32,393	29	178	207	32,600
Balance of risk-adjusted assets at the end of the reported period(2)	15,187	3,729	14,044	32,960	37	177	214	33,174
Average balance of assets under management(1)(3)	-	-	32,799	32,799	-	17,287	17,287	50,086
Segmentation of net interest income:								
- Spread from credit granting activity	374	12	687	1,073	-	-	-	1,073
- Spread from deposit taking activity	-	-	156	156	-	24	24	180
- Other	(6)	-	(5)	(11)	-	-	-	(11)
Total net interest income	368	12	838	1,218	-	24	24	1,242

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,253 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

SMALL AND MINUTE, MEDIUM AND LARGE BUSINESS - ACTIVITY IN ISRAEL

Consolidated	For the year ended December 31, 2022									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	220	699	919	59	231	290	131	571	702	1,911
Interest expenses for externals	-	151	151	-	41	41	-	360	360	552
Net interest income										
- From externals	220	548	768	59	190	249	131	211	342	1,359
- Inter-segmental	7	70	77	3	(15)	(12)	8	63	71	136
Total net interest income	227	618	845	62	175	237	139	274	413	1,495
Non-interest income	39	343	382	18	57	75	41	115	156	613
of which: income from credit cards	-	22	22	-	2	2	-	1	1	25
Total income	266	961	1,227	80	232	312	180	389	569	2,108
Expenses from credit losses	22	2	24	25	17	42	9	4	13	79
Operating and other expenses	115	559	674	25	88	113	48	153	201	988
Profit before taxes	129	400	529	30	127	157	123	232	355	1,041
Provision for taxes on profit	45	139	184	10	45	55	43	81	124	363
Net profit:										
Before attribution to non-controlling interests	84	261	345	20	82	102	80	151	231	678
Attributed to non-controlling interests	-	(6)	(6)	(1)	(2)	(3)	-	(1)	(1)	(10)
Net profit attributed to shareholders of the Bank	84	255	339	19	80	99	80	150	230	668
Average balance of assets(1)	7,043	14,459	21,502	1,900	5,391	7,291	6,093	17,288	23,381	52,174
Of which: average balance of credit to the public (1)	7,043	14,459	21,502	1,900	5,391	7,291	6,093	17,288	23,381	52,174
Balance of credit to the public at the end of the reported period	7,240	13,228	20,468	2,121	6,094	8,215	7,283	20,106	27,389	56,072
Balance of non-accruing debts	79	155	234	10	25	35	11	23	34	303
Balance of debts in arrears of more than 90 days	-	8	8	-	-	-	-	-	-	8
Average balance of liabilities(1)	4,191	23,034	27,225	1,128	5,852	6,980	2,177	15,913	18,090	52,295
Of which: average balance of deposits from the public (1)	4,067	22,920	26,987	1,083	5,781	6,864	2,031	15,308	17,339	51,190
Balance of deposits from the public at the end of the reported period	4,076	23,249	27,325	1,020	5,814	6,834	2,197	15,556	17,753	51,912
Average balance of risk-adjusted assets(1)(2)	8,041	12,343	20,384	2,860	5,634	8,494	8,809	14,551	23,360	52,238
Balance of risk-adjusted assets at the end of the reported period(2)	8,066	11,508	19,574	2,993	6,060	9,053	10,491	16,060	26,551	55,178
Average balance of assets under management(1)(3)	2,721	17,635	20,356	271	3,846	4,117	1,338	14,718	16,056	40,529
Segmentation of net interest income:										
- Spread from credit granting activity	189	412	601	52	125	177	124	208	332	1,110
- Spread from deposit taking activity	31	195	226	7	45	52	7	52	59	337
- Other	7	11	18	3	5	8	8	14	22	48
Total net interest income	227	618	845	62	175	237	139	274	413	1,495

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

SMALL AND MINUTE, MEDIUM AND LARGE BUSINESS - ACTIVITY IN ISRAEL (CON'T)

Consolidated	For the year ended December 31, 2021									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	193	522	715	31	119	150	100	191	291	1,156
Interest expenses for externals	-	41	41	-	8	8	-	94	94	143
Net interest income										
- From externals	193	481	674	31	111	142	100	97	197	1,013
- Inter-segmental	(2)	(63)	(65)	-	8	8	(2)	96	94	37
Total net interest income	191	418	609	31	119	150	98	193	291	1,050
Non-interest income	39	319	358	12	52	64	32	77	109	531
of which: income from credit cards	-	20	20	-	1	1	-	1	1	22
Total income	230	737	967	43	171	214	130	270	400	1,581
Income from credit losses	(2)	(113)	(115)	(2)	(19)	(21)	(16)	(57)	(73)	(209)
Operating and other expenses	111	529	640	17	83	100	42	132	174	914
Profit before taxes	121	321	442	28	107	135	104	195	299	876
Provision for taxes on profit	42	110	152	9	38	47	36	67	103	302
Net profit:										
Before attribution to non-controlling interests	79	211	290	19	69	88	68	128	196	574
Attributed to non-controlling interests	(1)	(4)	(5)	-	(3)	(3)	-	-	-	(8)
Net profit attributed to shareholders of the Bank	78	207	285	19	66	85	68	128	196	566
Average balance of assets(1)	6,580	12,745	19,325	958	4,665	5,623	3,923	13,055	16,978	41,926
Of which: average balance of credit to the public (1)	6,580	12,745	19,325	958	4,665	5,623	3,923	13,055	16,978	41,926
Balance of credit to the public at the end of the reported period	7,163	13,881	21,044	1,251	4,850	6,101	4,850	13,721	18,571	45,716
Balance of non-accruing debts*	74	126	200	-	69	69	11	58	69	338
Balance of debts in arrears of more than 90 days*	3	3	6	-	1	1	-	1	1	8
Average balance of liabilities(1)	3,827	20,982	24,809	986	4,963	5,949	1,927	11,592	13,519	44,277
Of which: average balance of deposits from the public (1)	3,706	20,668	24,374	961	4,852	5,813	1,817	11,013	12,830	43,017
Balance of deposits from the public at the end of the reported period	4,000	21,949	25,949	1,185	5,843	7,028	2,446	13,107	15,553	48,530
Average balance of risk-adjusted assets(1)(2)	7,441	11,029	18,470	1,478	4,790	6,268	6,290	11,768	18,058	42,796
Balance of risk-adjusted assets at the end of the reported period(2)	7,904	11,218	19,122	1,849	4,951	6,800	7,138	12,489	19,627	45,549
Average balance of assets under management(1)(3)	2,090	17,123	19,213	193	3,361	3,554	1,439	16,028	17,467	40,234
Segmentation of net interest income:										
- Spread from credit granting activity	189	394	583	30	115	145	99	185	284	1,012
- Spread from deposit taking activity	4	26	30	1	5	6	1	11	12	48
- Other	(2)	(2)	(4)	-	(1)	(1)	(2)	(3)	(5)	(10)
Total net interest income	191	418	609	31	119	150	98	193	291	1,050

* Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts.

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

SMALL AND MINUTE, MEDIUM AND LARGE BUSINESS - ACTIVITY IN ISRAEL (CON'T)

Consolidated	For the year ended December 31, 2020									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	193	478	671	33	125	158	95	137	232	1,061
Interest expenses for externals	-	46	46	-	10	10	-	37	37	93
Net interest income										
- From externals	193	432	625	33	115	148	95	100	195	968
- Inter-segmental	(3)	1	(2)	(1)	8	7	(2)	111	109	114
Total net interest income	190	433	623	32	123	155	93	211	304	1,082
Non-interest income	40	304	344	14	57	71	29	71	100	515
of which: income from credit cards	-	16	16	-	1	1	-	1	1	18
Total income	230	737	967	46	180	226	122	282	404	1,597
Expenses (income) from credit losses	14	148	162	(1)	85	84	13	85	98	344
Operating and other expenses	104	517	621	16	84	100	36	116	152	873
Profit before taxes	112	72	184	31	11	42	73	81	154	380
Provision for taxes on profit	35	23	58	8	3	11	21	23	44	113
Net profit:										
Before attribution to non-controlling interests	77	49	126	23	8	31	52	58	110	267
Attributed to non-controlling interests	(2)	(2)	(4)	(1)	(1)	(2)	-	(1)	(1)	(7)
Net profit attributed to shareholders of the Bank	75	47	122	22	7	29	52	57	109	260
Average balance of assets(1)	6,339	11,488	17,827	964	4,628	5,592	3,484	13,941	17,425	40,844
Of which: average balance of credit to the public (1)	6,339	11,488	17,827	964	4,628	5,592	3,484	13,941	17,425	40,844
Balance of credit to the public at the end of the reported period	6,436	12,440	18,876	863	4,522	5,385	3,973	12,751	16,724	40,985
Balance of impaired debts	60	171	231	-	78	78	11	67	78	387
Balance of debts in arrears of more than 90 days	20	16	36	-	-	-	7	-	7	43
Average balance of liabilities(1)	3,496	18,759	22,255	994	4,595	5,589	2,699	10,463	13,162	41,006
Of which: average balance of deposits from the public (1)	3,334	18,425	21,759	960	4,453	5,413	2,573	9,744	12,317	39,489
Balance of deposits from the public at the end of the reported period	3,594	20,764	24,358	1,012	4,695	5,707	2,470	10,397	12,867	42,932
Average balance of risk-adjusted assets(1)(2)	7,249	10,192	17,441	1,512	5,052	6,564	5,260	12,501	17,761	41,766
Balance of risk-adjusted assets at the end of the reported period(2)	7,113	10,607	17,720	1,302	4,680	5,982	5,831	11,793	17,624	41,326
Average balance of assets under management(1)(3)	1,300	14,475	15,775	158	3,339	3,497	1,193	11,180	12,373	31,645
Segmentation of net interest income:										
- Spread from credit granting activity	186	396	582	31	117	148	93	203	296	1,026
- Spread from deposit taking activity	7	40	47	2	7	9	2	12	14	70
- Other	(3)	(3)	(6)	(1)	(1)	(2)	(2)	(4)	(6)	(14)
Total net interest income	190	433	623	32	123	155	93	211	304	1,082

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

FINANCIAL MANGEMENT SEGMENT - ACTIVITY IN ISRAEL

Consolidated	For the year ended December 31, 2022				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	2	825	-	-	827
Interest expenses for externals	2	(12)	-	-	(10)
Net interest income					
- From externals	-	837	-	-	837
- Inter-segmental	-	(440)	-	-	(440)
Total net interest income	-	397	-	-	397
Non-interest income (expenses)	92	65	(62)	8	103
Total income (expenses)	92	462	(62)	8	500
Operating and other expenses	-	74	-	-	74
Profit (loss) before taxes	92	388	(62)	8	426
Provision for taxes (tax savings) on profit (loss)	32	135	(21)	3	149
Profit (loss) after taxes	60	253	(41)	5	277
Bank's share in operating profit of investee company after tax effect	-	-	74	-	74
Net profit:					
Before attribution to non-controlling interests	60	253	33	5	351
Attributed to non-controlling interests	-	(5)	-	-	(5)
Net profit attributed to shareholders of the Bank	60	248	33	5	346
Average balance of assets(1)	158	75,070	1,360	-	76,588
Of which: Investee company(1)	-	-	698	-	698
Average balance of liabilities(1)	125	15,412	-	-	15,637
Average balance of risk assets(1)(2)	702	3,420	2,271	-	6,393
Balance of risk assets(2)	789	5,909	2,033	-	8,731
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net(3)	43	(9)			
CPI differences, net(3)	1	236			
Interest rate exposures, net(3)	62	274			
Exposures to shares, net(3)	(2)	-			
Total net interest and non-interest income, by accrual basis	104	501			
Profits or losses from sale or impairment that is not temporary of bonds	-	(34)			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	(5)			
Other non-interest expenses	(12)	-			
Total net interest income and non interest financing income	92	462			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

FINANCIAL MANGEMENT SEGMENT - ACTIVITY IN ISRAEL (CON'T)

Consolidated	For the year ended December 31, 2021				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	1	156	-	-	157
Interest expenses for externals	1	17	-	-	18
Net interest income					
- From externals	-	139	-	-	139
- Inter-segmental	-	345	-	-	345
Total net interest income	-	484	-	-	484
Non-interest income	37	22	231	7	297
Total income	37	506	231	7	781
Operating and other expenses	-	106	-	-	106
Profit before taxes	37	400	231	7	675
Provision for taxes on profit	13	138	79	2	232
Operating profit after taxes	24	262	152	5	443
Bank's share in operating profit of investee company after tax effect	-	-	69	-	69
Net profit:					
Before attribution to non-controlling interests	24	262	221	5	512
Attributed to non-controlling interests	-	(9)	-	-	(9)
Net profit attributed to shareholders of the Bank	24	253	221	5	503
Average balance of assets(1)	302	76,403	1,210	-	77,915
Of which: Investee company(1)	-	-	674	-	674
Average balance of liabilities(1)	112	13,793	-	-	13,905
Average balance of risk assets(1)(2)	821	4,563	1,945	-	7,329
Balance of risk assets(2)	683	3,199	2,198	-	6,080
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net(3)	18	(10)			
CPI differences, net(3)	-	98			
Interest rate exposures, net(3)	20	396			
Exposures to shares, net(3)	2	-			
Total net interest and non-interest income, by accrual basis	40	484			
Profits or losses from sale or impairment that is not temporary of bonds	-	23			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	(1)			
Other non-interest expenses	(3)	-			
Total net interest income and non interest financing income	37	506			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

FINANCIAL MANGEMENT SEGMENT - ACTIVITY IN ISRAEL (CON'T)

Consolidated	For the year ended December 31, 2020				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	-	172	-	-	172
Interest expenses for externals	1	(1)	-	-	-
Net interest income					
- From externals	(1)	173	-	-	172
- Inter-segmental	-	102	-	-	102
Total net interest income (expenses)	(1)	275	-	-	274
Non-interest income	14	118	1	-	133
Total income	13	393	1	-	407
Operating and other expenses	-	60	-	-	60
Profit before taxes	13	333	1	-	347
Provision for taxes on profit	4	109	-	-	113
Operating profit after taxes	9	224	1	-	234
Bank's share in operating profit of investee company after tax effect	-	-	29	-	29
Net profit:					
Before attribution to non-controlling interests	9	224	30	-	263
Attributed to non-controlling interests	-	(5)	-	-	(5)
Net profit attributed to shareholders of the Bank	9	219	30	-	258
Average balance of assets (1)	228	61,304	906	-	62,438
Of which: Investee company(1)	-	-	617	-	617
Average balance of liabilities(1)	31	10,599	-	-	10,630
Average balance of risk assets(1)(2)	886	4,870	1,565	-	7,321
Balance of risk assets(2)	883	5,076	1,638	-	7,597
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net (3)	(21)	67			
CPI differences, net(3)	-	(17)			
Interest rate exposures, net(3)	42	322			
Exposures to shares, net(3)	(3)	-			
Total net interest and non-interest income, by accrual basis	18	372			
Profits or losses from sale or impairment that is not temporary of bonds	-	24			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	(3)			
Other non-interest income	(5)	-			
Total net interest income and non interest financing income	13	393			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

F. GEOGRAPHICAL REGION INFORMATION
(NIS million)

Consolidated	Income[2]			Net profit			Total assets	
	Year ended December 31			Year ended December 31			at December 31	
	2022	2021	2020	**2022**	2021	2020	**2022**	2021
Israel	**5,414**	4,550	4,160	**1,667**	1,405	750	**195,955**	180,470
Consolidated total	**5,414**	4,550	4,160	**1,667**	1,405	750	**195,955**	180,470

(1) The distribution to geographical regions is based on the location of the assets.
(2) Net interest income and non-interest income.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

A. GENERAL

1. Instructions of the Supervisor of Banks state that a banking corporation, the operating segments of which per Management's approach, materially differ from the regulatory segments of activity, shall, in addition, provide disclosure regarding operating segments according to Management's approach ("administrative operating segments"), in accordance with accounting principles accepted by US banks in the matter of segments of operation (ASC 280-10).
2. The distribution to segments of operation in accordance with Management's approach is made according to criteria detailed in item 3 below. This distribution is used by the chief operational decision maker at the Bank for the purpose of determining the work plan, taking decisions and analyzing the business results of the Group. Management of the Bank and the Board of Directors are considered as the chief operational decision maker at the Bank.
3. The Bank has identified the following administrative operating segments:
   - **Banking Division - housing loans** - the segment is responsible for providing residential credit services to customers in this segment.
   - **Banking Division - Households** - which includes all operations of households' customers.
   - **Banking Division - Private banking** - which includes all operations of private customers having a medium to high financial wealth, to which the Bank provides a variety of banking services and financial instruments, including investment counseling services.
   - **Banking Division - other** - the segment includes all activities of small businesses and commercial customers of the Banking Division branches.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrower in complex credit areas, such as: communication, construction projects, factoring and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches of the corporate division, which are not under authority of the branches' managers.
   - **Corporate Division - other** - Bank customers in the business branches subordinated to the corporate division.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits and the overall activities of institutional entities.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" securities portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its subsidiary Massad Bank.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

- **Adjustments:**

  A part of the results of operations with customers of the Bank is recorded in more than one operating segment, as detailed below:

  - The results of operation in the capital market product, which includes securities activity of customers, the distribution of pension products and deposits from the public, as well as the foreign currency product, are included both in the Customer Assets Division segment and in the Banking Division segments (except for mortgages) or in any one of the Corporate Division segments.
  - The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
  - The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-other segment.
  - The results of operation of certain customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division segments (except mortgages) or in any one of the Corporate Division segments.

  The duplicity in the recording of the results of operation as described above is eliminated in the adjustments column.

  The adjustments column includes also the elimination of inter-company balances.

For detail regarding the principles of the distribution of the results of operation between the different segments of activity, see note 28.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

Consolidated							For the year ended December 31, 2022
	Banking Division				Corporate Division		
	Housing loans	Households	Private banking	Other	Corporate customers	Commercial customers	Other
Net interest income	**488**	**760**	**391**	**595**	**622**	**340**	**135**
Non-interest income	**12**	**224**	**453**	**232**	**289**	**88**	**38**
Total income	**500**	**984**	**844**	**827**	**911**	**428**	**173**
Expenses from credit losses	**38**	**11**	**6**	**48**	**10**	**45**	**2**
Operating and other expenses	**198**	**717**	**521**	**461**	**366**	**182**	**44**
Operating profit before taxes	**264**	**256**	**317**	**318**	**535**	**201**	**127**
Provision for taxes on operating profit	**92**	**89**	**110**	**111**	**186**	**70**	**44**
Operating profit after taxes	**172**	**167**	**207**	**207**	**349**	**131**	**83**
Bank's share in operating profit of investee company	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit:							
Before attribution to non-controlling interests	**172**	**167**	**207**	**207**	**349**	**131**	**83**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Attributed to shareholders of the Bank	**172**	**167**	**207**	**207**	**349**	**131**	**83**
Average balance of assets(1)	**34,210**	**15,452**	**4,532**	**11,166**	**32,347**	**11,290**	**1,253**
Balance of credit to the public at the end of the reported period	**35,229**	**15,992**	**4,773**	**12,546**	**36,115**	**11,657**	**1,404**
Balance of deposits from the public at the end of the reported period	**-**	**32,580**	**41,815**	**23,970**	**32,813**	**9,687**	**30,006**

Consolidated							For the year ended December 31, 2021
	Banking Division				Corporate Division		
	Housing loans	Households	Private banking	Other	Corporate customers	Commercial customers	Other
Net interest income	431	524	144	401	440	262	42
Non-interest income	16	228	477	217	220	82	37
Total income	447	752	621	618	660	344	79
Expenses (income) from credit losses	(8)	(12)	2	(61)	(94)	(47)	(2)
Operating and other expenses	199	691	531	441	295	174	28
Operating profit before taxes	256	73	88	238	459	217	53
Provision for taxes on operating profit	88	25	30	82	158	75	18
Operating profit after taxes	168	48	58	156	301	142	35
Bank's share in operating profit of investee company	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interests	168	48	58	156	301	142	35
Attributed to non-controlling interests	-	-	-	-	-	-	-
Attributed to shareholders of the Bank	168	48	58	156	301	142	35
Average balance of assets(1)	30,108	14,857	4,201	10,409	23,851	9,687	1,058
Balance of credit to the public at the end of the reported period	32,012	15,660	4,634	11,992	26,900	10,562	1,073
Balance of deposits from the public at the end of the reported period	-	30,432	39,353	21,641	26,424	8,657	28,439

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

	Customer assets division	Financial Management	Subsidiaries	Adjustments Total	Adjustments Of which: activity in capital market products	Total
	1,033	**371**	**307**	**(1,239)**	**(1,033)**	**3,803**
	945	**100**	**95**	**(865)**	**(758)**	**1,611**
	1,978	**471**	**402**	**(2,104)**	**(1,791)**	**5,414**
	9	**-**	**5**	**(51)**	**(9)**	**123**
	870	**72**	**211**	**(887)**	**(697)**	**2,755**
	1,099	**399**	**186**	**(1,166)**	**(1,085)**	**2,536**
	383	**139**	**66**	**(406)**	**(377)**	**884**
	716	**260**	**120**	**(760)**	**(708)**	**1,652**
	-	**74**	**-**	**-**	**-**	**74**
	716	**334**	**120**	**(760)**	**(708)**	**1,726**
	-	**-**	**(59)**	**-**	**-**	**(59)**
	716	**334**	**61**	**(760)**	**(708)**	**1,667**
	10,361	**74,089**	**9,099**	**(16,698)**	**(10,361)**	**187,101**
	11,653	**-**	**6,137**	**(18,350)**	**(11,653)**	**117,156**
	161,954	**-**	**9,347**	**(173,903)**	**(161,954)**	**168,269**

	Customer assets division	Financial Management	Subsidiaries	Adjustments Total	Adjustments Of which: activity in capital market products	Total
	221	462	245	(378)	(222)	2,794
	925	289	101	(836)	(734)	1,756
	1,146	751	346	(1,214)	(956)	4,550
	(2)	-	(3)	11	2	(216)
	804	94	192	(797)	(658)	2,652
	344	657	157	(428)	(300)	2,114
	118	226	55	(147)	(103)	728
	226	431	102	(281)	(197)	1,386
	-	69	-	-	-	69
	226	500	102	(281)	(197)	1,455
	-	-	(50)	-	-	(50)
	226	500	52	(281)	(197)	1,405
	6,474	75,476	8,667	(12,415)	(6,474)	172,373
	9,328	-	5,641	(15,562)	(9,328)	102,240
	147,340	-	9,025	(157,864)	(147,340)	153,447

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

Consolidated	For the year ended December 31, 2020						
	Banking Division				Corporate Division		
	Housing loans	Households	Private banking	Other	Corporate customers	Commercial customers	Other
Net interest income	376	551	181	416	458	260	40
Non-interest income	13	209	441	211	241	80	20
Total income	389	760	622	627	699	340	60
Expenses from credit losses	40	77	22	133	131	92	8
Operating and other expenses	178	683	541	442	311	170	27
Operating profit before taxes	171	-	59	52	257	78	25
Provision for taxes on operating profit	53	-	16	12	88	22	6
Operating profit after taxes	118	-	43	40	169	56	19
Bank's share in operating profit of investee company	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interests	118	-	43	40	169	56	19
Attributed to non-controlling interests	-	-	-	-	-	-	-
Attributed to shareholders of the Bank	118	-	43	40	169	56	19
Average balance of assets(1)	26,758	14,661	3,939	9,851	24,233	9,242	1,024
Balance of credit to the public at the end of the reported period	28,121	14,882	4,190	10,946	24,431	9,284	620
Balance of deposits from the public at the end of the reported period	-	28,228	41,178	19,784	31,191	6,935	15,147

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

	Customer assets division	Financial Management	Subsidiaries	Adjustments Total	Adjustments Of which: activity in capital market products	Total
	293	273	241	(452)	(293)	2,637
	883	130	84	(789)	(711)	1,523
	1,176	403	325	(1,241)	(1,004)	4,160
	9	-	22	(70)	(9)	464
	821	59	182	(845)	(690)	2,569
	346	344	121	(326)	(305)	1,127
	102	118	44	(93)	(87)	368
	244	226	77	(233)	(218)	759
	-	29	-	-	-	29
	244	255	77	(233)	(218)	788
	-	-	(38)	-	-	(38)
	244	255	39	(233)	(218)	750
	5,326	60,040	7,995	(10,889)	(5,326)	152,180
	5,423	-	5,238	(10,888)	(5,423)	92,247
	135,831	-	8,612	(145,229)	(135,831)	141,677

NOTE 29 -ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS millions)

A. DEBTS*, BONDS HELD TO MATURITY, BONDS AVAILABLE FOR SALE AND OFF-BALANCE SHEET CREDIT INSTRUMENTS

Provision for credit losses

1. Change in provision for credit losses

Consolidated	For the year ended December 31, 2022					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Provision for credit losses at beginning of the year[1]	**670**	**159**	**326**	**1,155**	**-**	**1,155**
Adjustment to opening balance due to effect of initial implementation**	**93**	**(34)**	**4**	**63**	**2**	**65**
Expenses from credit losses	**81**	**25**	**17**	**123**	**-**	**123**
- Accounting write-offs	**(119)**	**(2)**	**(89)**	**(210)**	**-**	**(210)**
- Collection of debts written off in accounting in previous years	**92**	**3**	**86**	**181**	**-**	**181**
Net accounting write-offs	**(27)**	**1**	**(3)**	**(29)**	**-**	**(29)**
Provision for credit losses at end of year[2]	**817**	**151**	**344**	**1,312**	**2**	**1,314**
Of which: (1) In respect of off-balance sheet credit instruments	**68**	**-**	**11**	**79**	**-**	**79**
(2) In respect of off-balance sheet credit instruments	**100**	**6**	**11**	**117**	**-**	**117**

Consolidated	For the year ended December 31, 2021					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Provision for credit losses at beginning of year[1]	881	164	318	1,363	-	1,363
Expenses (income) from credit losses	(212)	(6)	2	(216)	-	(216)
- Accounting write-offs	(94)	-	(84)	(178)	-	(178)
- Collection of debts written off in accounting in previous years	95	1	90	186	-	186
Net accounting write-offs	1	1	6	8	-	8
Provision for credit losses at end of year[2]	670	159	326	1,155	-	1,155
Of which: (1) In respect of off-balance sheet credit instruments	72	-	14	86	-	86
(2) In respect of off-balance sheet credit instruments	68	-	11	79	-	79

Consolidated	For the year ended December 31, 2020					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Provision for credit losses at beginning of year[1]	591	121	275	987	-	987
Expenses from credit losses	346	41	77	464	-	464
- Accounting write-offs	(143)	-	(122)	(265)	-	(265)
- Collection of debts written off in accounting in previous years	87	2	88	177	-	177
Net accounting write-offs	(56)	2	(34)	(88)	-	(88)
Provision for credit losses at end of year[2]	881	164	318	1,363	-	1,363
Of which: (1) In respect of off-balance sheet credit instruments	46	-	11	57	-	57
(2) In respect of off-balance sheet credit instruments	72	-	14	86	-	86

* Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

** Effect of initial implementation of the public reporting instruction regarding expected credit losses, for additional details, see Note 1(c) above.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. DEBTS*, BONDS HELD TO MATURITY, BONDS AVAILABLE FOR SALE AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONT.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1)

Consolidated	For the year ended December 31, 2022					
	Credit to the public				Banks, Governments and Bonds	Total
	Commercial	Housing	Other private	Total		
Recorded balance of debts						
Examined on an individual basis	**51,216**	**-**	**389**	**51,605**	**19,217**	**70,822**
Examined on a collective basis	**6,933**	**35,474**	**23,144**	**65,551**	**-**	**65,551**
Total debts	**58,149**	**35,474**	**23,533**	**117,156**	**19,217**	**136,373**
Provision for credit losses in respect of debts						
Examined on an individual basis	**645**	**-**	**10**	**655**	**2**	**657**
Examined on a collective basis	**72**	**145**	**323**	**540**	**-**	**540**
Total provision for credit losses	**717**	**145**	**333**	**1,195**	**2**	**1,197**

Consolidated	For the year ended December 31, 2021					
	Credit to the public				Banks, Governments and Bonds	Total
	Commercial	Housing	Other private	Total		
Recorded balance of debts						
Examined on an individual basis	41,141	-	380	41,521	17,548	59,069
Examined on a collective basis	6,206	32,260	22,253	60,719	-	60,719
Total debts	47,347	32,260	22,633	102,240	17,548	119,788
Provision for credit losses in respect of debts						
Examined on an individual basis	530	-	5	535	-	535
Examined on a collective basis	72	159	310	541	-	541
Total provision for credit losses	602	159	315	1,076	-	1,076

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 -ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. DEBTS*, BONDS HELD TO MATURITY, BONDS AVAILABLE FOR SALE AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONT.)

Provision for credit losses

1. Change in provision for credit losses

The Bank	For the year ended December 31, 2022					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Provision for credit losses at beginning of year(1)	**657**	**159**	**270**	**1,086**	**-**	**1,086**
Adjustment to opening balance due to effect of initial implementation**	**91**	**(34)**	**(7)**	**50**	**2**	**52**
Expenses from credit losses	**79**	**25**	**14**	**118**	**-**	**118**
- Accounting write-offs	**(119)**	**(2)**	**(75)**	**(196)**	**-**	**(196)**
- Collection of debts written off in accounting in previous years	**90**	**3**	**76**	**169**	**-**	**169**
Net accounting write-offs	**(29)**	**1**	**1**	**(27)**	**-**	**(27)**
Provision for credit losses at end of year(2)	**798**	**151**	**278**	**1,227**	**2**	**1,229**
Of which: (1) In respect of off-balance sheet credit instruments	**68**	**-**	**8**	**76**	**-**	**76**
(2) In respect of off-balance sheet credit instruments	**97**	**6**	**9**	**112**	**-**	**112**

The Bank	For the year ended December 31, 2021					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Provision for credit losses at beginning of year(1)	864	164	259	1,287	-	1,287
Expenses (income) from credit losses	(211)	(6)	4	(213)	-	(213)
- Accounting write-offs	(88)	-	(73)	(161)	-	(161)
- Collection of debts written off in accounting in previous years	92	1	80	173	-	173
Net accounting write-offs	4	1	7	12	-	12
Provision for credit losses at end of year(2)	657	159	270	1,086	-	1,086
Of which: (1) In respect of off-balance sheet credit instruments	73	-	10	83	-	83
(2) In respect of off-balance sheet credit instruments	68	-	8	76	-	76

The Bank	For the year ended December 31, 2020					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Provision for credit losses at beginning of year(1)	578	121	227	926	-	926
Expenses from credit losses	341	41	61	443	-	443
- Accounting write-offs	(140)	-	(107)	(247)	-	(247)
- Collection of debts written off in accounting in previous years	85	2	78	165	-	165
Net accounting write-offs	(55)	2	(29)	(82)	-	(82)
Provision for credit losses at end of year(2)	864	164	259	1,287	-	1,287
Of which: (1) In respect of off-balance sheet credit instruments	47	-	8	55	-	55
(2) In respect of off-balance sheet credit instruments	73	-	10	83	-	83

* Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

** Effect of initial implementation of the public reporting instruction regarding expected credit losses, for additional details, see Note 1(c) above.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. DEBTS*, BONDS HELD TO MATURITY, BONDS AVAILABLE FOR SALE AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONT.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1)

The Bank	For the year ended December 31, 2022					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Recorded balance of debts						
Examined on an individual basis	**50,194**	**-**	**389**	**50,583**	**18,127**	**68,710**
Examined on a collective basis	**6,853**	**35,474**	**18,109**	**60,436**	**-**	**60,436**
Total debts	**57,047**	**35,474**	**18,498**	**111,019**	**18,127**	**129,146**
Provision for credit losses in respect of debts						
Examined on an individual basis	**630**	**-**	**10**	**640**	**2**	**642**
Examined on a collective basis	**71**	**145**	**259**	**475**	**-**	**475**
Total provision for credit losses	**701**	**145**	**269**	**1,115**	**2**	**1,117**

The Bank	For the year ended December 31, 2021					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Recorded balance of debts						
Examined on an individual basis	40,225	-	380	40,605	16,428	57,033
Examined on a collective basis	6,127	32,260	17,607	55,994	-	55,994
Total debts	46,352	32,260	17,987	96,599	16,428	113,027
Provision for credit losses in respect of debts						
Examined on an individual basis	518	-	5	523	-	523
Examined on a collective basis	71	159	257	487	-	487
Total provision for credit losses	589	159	262	1,010	-	1,010

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 -ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. CREDIT TO THE PUBLIC

1. Credit quality and arrears

Consolidated	December 31, 2022					
		Problematic[1]			Accruing debts[2] - additional information	
	Performing	Accruing[2]	Non-accruing	Total	In arrears of 90 days or more	In arrears of 30 to 89 days[3]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**9,620**	**26**	**60**	**9,706**	**-**	**4**
Construction and real estate - real estate activities	**7,076**	**13**	**40**	**7,129**	**-**	**12**
Financial services	**13,000**	**4**	**2**	**13,006**	**-**	**11**
Commercial - other	**27,130**	**532**	**201**	**27,863**	**8**	**22**
Total commercial	**56,826**	**575**	**303**	**57,704**	**8**	**49**
Private individuals - housing loans	**35,254**	**75**	**145**	**35,474**	**-**	**205**
Private individuals - others	**23,287**	**150**	**96**	**23,533**	**13**	**45**
Total activity in Israel	**115,367**	**800**	**544**	**116,711**	**21**	**299**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**13**	**-**	**-**	**13**	**-**	**-**
Other commercial	**432**	**-**	**-**	**432**	**-**	**-**
Total commercial	**445**	**-**	**-**	**445**	**-**	**-**
Private individuals	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**445**	**-**	**-**	**445**	**-**	**-**
Total credit to the public	**115,812**	**800**	**544**	**117,156**	**21**	**299**

(1) Credit to the public, credit to government, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Classified as problematic debts, accruing interest income.
(5) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 81 million (31.12.21 - NIS 85 million) were classified as problematic debts.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. CREDIT TO THE PUBLIC (CONT'D)

1. Credit quality and arrears (CONT'D)

Consolidated	December 31, 2021*					
		Problematic(1)			Accruing debts(2) - additional information	
	Performing	Accruing(2)	Non-accruing	Total	In arrears of 90 days or more	In arrears of 30 to 89 days(3)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	7,219	51	47	7,317	3	5
Construction and real estate - real estate activities	5,962	12	38	6,012	-	2
Financial services	9,224	5	5	9,234	-	10
Commercial - other	23,192	763	248	24,203	5	14
Total commercial	45,597	831	338	46,766	8	31
Private individuals - housing loans	31,985	275	-	32,260	167	159
Private individuals - others	22,364	166	103	22,633	22	44
Total activity in Israel	99,946	1,272	441	101,659	197	234
Borrower activity abroad						
Public - commercial						
Construction and real estate	19	-	-	19	-	-
Other commercial	560	2	-	562	2	3
Total commercial	579	2	-	581	2	3
Private individuals	-	-	-	-	-	-
Total activity abroad	579	2	-	581	2	3
Total credit to the public	100,525	1,274	441	102,240	199	237

* Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts.

CREDIT QUAILTY - THE STATUS OF DEBTS IN ARREARS

The credit risk policy of the Bank defines principal indicators for the examination of credit quality, among which are the default situation, rating of the customer, status of the collateral etc. The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts which are evaluated on an individual basis, are treated as non-accruing debts after 90 days of arrears. In addition, debts restructuring of problematic debts, are treated as non-accruing debts, except for restructured debts of private individuals that are classified as non-accruing debts evaluated on collective basis. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt up to the extent of the collateral. With regard to housing loans, the Bank performs an accounting write-off after 180 days in arrears, to the recorded balance of the debts that exceeds the value of the collateral.

NOTE 29 -ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. CREDIT TO THE PUBLIC (CONT'D)

1.1. Credit quality according to the credit granting year

	December 31, 2022							
	Stated balance of debt regarding fixed-term credit to the public*							
	2022	2021	2020	2019	2018	Prior years	Stated debt Balance of renewable loans	Total
Borrower activity in Israel								
Public - commercial								
Construction and real estate	8,784	2,602	1,263	575	425	1,118	2,068	16,835
Credit having a credit granting rating	8,647	2,528	1,237	557	416	1,083	1,965	16,433
Credit not having credit granting rating and is not problematic	125	59	13	7	4	14	41	263
Accruing problematic credit	6	7	7	2	2	6	9	39
Non-accruing credit	6	8	6	9	3	15	53	100
Other commercial	18,223	3,697	3,003	1,726	870	1,975	11,375	40,869
Credit having a credit granting rating	17,881	3,479	2,705	1,594	803	1,879	10,642	38,983
Credit not having credit granting rating and is not problematic	292	106	159	81	31	42	436	1,147
Accruing problematic credit	38	84	100	38	20	16	240	536
Non-accruing credit	12	28	39	13	16	38	57	203
Private individuals - residential loans	5,554	7,359	5,189	3,360	2,649	11,363	-	35,474
LTV of up to 60%	3,491	4,719	3,404	2,342	1,918	8,402	-	24,276
LTV of over 60% and up to 75%	2,048	2,595	1,729	983	700	2,407	-	10,462
LTV of over 75%	15	45	56	35	31	554	-	736
Credit not in default, having a credit granting rating	5,537	7,311	5,126	3,330	2,605	11,073	-	34,982
Credit not in default, not having a credit granting rating	8	19	19	13	14	82	-	155
In arrears for 30 to 89 days	9	26	37	13	20	107	-	212
In arrears for over 90 days	-	3	7	4	10	101	-	125
Non-accruing credit	-	3	8	5	11	118	-	145
Private individuals - others	8,245	3,299	2,342	1,699	1,828	4,143	1,977	23,533
Credit not in default, having a credit granting rating	8,115	3,179	2,248	1,625	1,718	3,870	1,845	22,600
Credit not in default, not having a credit granting rating	117	103	84	64	94	240	113	815
In arrears for 30 to 89 days	9	10	7	6	11	30	7	80
In arrears for over 90 days	4	7	3	4	5	3	12	38
Non-accruing credit	11	12	9	9	14	38	3	96
Total Credit to the public - activity in Israel	40,806	16,957	11,797	7,360	5,772	18,599	15,420	116,711
Total Credit to the public - activity abroad	275	-	1	1	9	-	159	445
Performing credit	275	-	1	1	9	-	159	445
Accruing problematic credit	-	-	-	-	-	-	-	-
Non-accruing credit	-	-	-	-	-	-	-	-
Total Credit to the public	41,081	16,957	11,798	7,361	5,781	18,599	15,579	117,156

* Including stated debts balance of renewable loans which were converted into fixed term loans.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. CREDIT TO THE PUBLIC (CONT'D)

2. A. Additional information regarding non-accruing debts:

						December 31, 2022
	Balance(1) of provided for non-accruing debts	Balance of provision	Balance(1) of not provided for non-accruing debts	Total Balance(1) of non-accruing debts	Balance of contractual principal of non-accruing debts	Recognized interest income(2)
Borrower activity in Israel						
Construction and real estate	**80**	**21**	**20**	**100**	**2,139**	**-**
Commercial - other	**151**	**58**	**52**	**203**	**3,740**	**-**
Total commercial	**231**	**79**	**72**	**303**	**5,879**	**-**
Private individuals - residential loans	**143**	**6**	**2**	**145**	**173**	**-**
Private individuals - others	**82**	**28**	**14**	**96**	**342**	**-**
Total Credit to the public - activity in Israel	**456**	**113**	**88**	**544**	**6,394**	**-**
Borrower activity abroad						
Total Credit to the public - activity abroad	**-**	**-**	**-**	**-**	**31**	**-**
Total *	**456**	**113**	**88**	**544**	**6,425**	**-**
(*) Of which:						
Measured by present value of cash flows	**231**	**79**	**61**	**292**		
Measured individually according to present value of collateral	**-**	**-**	**12**	**12**		
Measured on a collective basis	**225**	**34**	**15**	**240**		

						December 31, 2021*
	Balance(1) of provided for non-accruing debts	Balance of provision	Balance(1) of not provided for non-accruing debts	Total Balance(1) of non-accruing debts	Balance of contractual principal of non-accruing debts	Recognized interest income(2)
Borrower activity in Israel						
Construction and real estate	65	11	20	85	1,814	-
Commercial - other	221	118	32	253	3,395	-
Total commercial	286	129	52	338	5,209	-
Private individuals - residential loans	-	-	-	-	-	-
Private individuals - others	92	33	11	103	458	-
Total Credit to the public - activity in Israel	378	162	63	441	5,667	-
Borrower activity abroad						
Total Credit to the public - activity abroad	-	-	-	-	14	-
Total *	378	162	63	441	5,681	-
(*) Of which:						
Measured by present value of cash flows	286	129	27	313		
Measured individually according to present value of collateral	-	-	17	17		
Measured on a collective basis	92	33	19	111		

* Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts.

(1) Stated balance of debt.

(2) Amount of interest income recognized in the reported period, in respect of the average balance of non-accruing debts, during the period of time in which the debts had been classified as non-accruing.
If the non-accruing debts were accruing interest according the to the original terms, interest in the amount of NIS 39 million (31.12.21 - NIS 28 million) was recorded.
Additional information: the total stated average debt balance of non-accruing debts was NIS 538 million (31.12.21 - NIS 478 million).

NOTE 29 -ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. CREDIT TO THE PUBLIC (CONT'D)

2.B. Debts which had undergone restructure of a problematic debt:

	December 31, 2022				
	Recorded debt balance				
	Not accruing interest income	accruing(1) in arrears of 90 days or more	accruing (1) in arrears of 30 to 89 days	Accruing(1), not in arrears	Total(2)
Borrower activity in Israel					
Public - commercial					
Construction and real estate	**14**	**-**	**-**	**2**	**16**
Commercial - other	**52**	**-**	**-**	**8**	**60**
Total commercial	**66**	**-**	**-**	**10**	**76**
Private individuals - residential loans	**13**	**-**	**-**	**1**	**14**
Private individuals - others	**63**	**-**	**-**	**13**	**76**
Total Credit to the public - activity in Israel	**142**	**-**	**-**	**24**	**166**
Borrower activity abroad					
Total Credit to the public - activity abroad	**-**	**-**	**-**	**-**	**-**
Total	**142**	**-**	**-**	**24**	**166**

	December 31, 2021*				
	Recorded debt balance				
	Not accruing interest income	accruing(1) in arrears of 90 days or more	accruing (1) in arrears of 30 to 89 days	Accruing(1), not in arrears	Total(2)
Borrower activity in Israel					
Public - commercial					
Construction and real estate	9	-	-	5	14
Commercial - other	58	-	-	19	77
Total commercial	67	-	-	24	91
Private individuals - others	69	-	-	33	102
Total Credit to the public - activity in Israel	136	-	-	57	193
Borrower activity abroad					
Total Credit to the public - activity abroad	-	-	-	-	-
Total	136	-	-	57	193

* Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts.

(1) Accruing interest income.

(2) As at December 31, 2022, debts of NIS 166 million, that had been restructured are classified as problematic debts (as of December 31, 2021 – NIS 193 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. CREDIT TO THE PUBLIC (CONT'D)

2.B. Debts which had undergone restructure of a problematic debt: (Cont'd)

Consolidated	Restructuring made								
	For the year ended December 31,								
	2022			2021			2020		
	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring
Borrower activity in Israel									
Public - commercial									
Construction and real estate	**28**	**12**	**12**	37	5	5	50	22	21
Commercial - other	**218**	**37**	**37**	225	38	38	330	75	75
Total commercial	**246**	**49**	**49**	262	43	43	380	97	96
Private individuals - housing loans	**4**	**3**	**3**	-	-	-	-	-	-
Private individuals - others	**1,231**	**53**	**50**	1,025	46	44	1,406	62	60
Total credit to the public - activity in Israel	**1,481**	**105**	**102**	1,287	89	87	1,786	159	156

Consolidated	Restructuring made and failed (1)					
	For the year ended December 31,					
	2022		2021		2020	
	Number of contracts	Balance of debt recorded	Number of contracts	Balance of debt recorded	Number of contracts	Balance of debt recorded
Borrower activity in Israel						
Public - commercial						
Construction and real estate	**18**	**1**	21	2	19	3
Commercial - other	**111**	**14**	144	6	167	12
Total commercial	**129**	**15**	165	8	186	15
Private individuals - housing loans	**4**	**1**	-	-	-	-
Private individuals - others	**522**	**13**	517	10	623	15
Total credit to the public - activity in Israel	**655**	**29**	682	18	809	30

(1) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debt during the 12 months that preceded the date in which they became debts in arrears.

NOTE 29 -ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. CREDIT TO THE PUBLIC (CONT'D)

2.c. Additional information regarding non-accruing credit in arrears

Consolidated								December 31, 2022
	Not in arrears of 90 days or more	In arrears from 90 to 180 days	In arrears from 180 days to one year	In arrears from one to 3 years	In arrears from 3 to 5 years	In arrears from 5 to 7 years	In arrears for over 7 years	Total
Commercial	**206**	**25**	**27**	**33**	**9**	**3**	**-**	**303**
Residential loans	**19**	**56**	**32**	**27**	**3**	**6**	**2**	(1)**145**
Private individuals - others	**90**	**2**	**2**	**2**	**-**	**-**	**-**	**96**
Total	**315**	**83**	**61**	**62**	**12**	**9**	**2**	**544**

Consolidated								December 31, 2021
	Not in arrears of 90 days or more	In arrears from 90 to 180 days	In arrears from 180 days to one year	In arrears from one to 3 years	In arrears from 3 to 5 years	In arrears from 5 to 7 years	In arrears for over 7 years	Total
Commercial	251	15	20	45	7	-	-	338
Residential loans	-	-	-	-	-	-	-	-
Private individuals - others	97	2	1	3	-	-	-	103
Total	348	17	21	48	7	-	-	441

(1) According to the Directives of Bank of Israel, starting with January 1, 2022, housing loans in arrears of over 90 day are classified as non-accruing debts.

NOTE 29 -ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. CREDIT TO THE PUBLIC (CONT'D)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)*, repayment type, and interest type

Consolidated	December 31, 2022			
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interest rate	Total Off-balance sheet credit risk
First lien financing rate				
- Up to 60%	**23,831**	**207**	**14,122**	**1,313**
- Over 60%	**11,198**	**64**	**6,789**	**922**
Secondary lien or no lien	**445**	**39**	**388**	**-**
Total	**35,474**	**310**	**21,299**	**2,235**

Consolidated	December 31, 2021			
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interest rate	Total Off-balance sheet credit risk
First lien financing rate				
- Up to 60%	22,020	227	12,965	2,053
- Over 60%	9,770	73	5,903	1,525
Secondary lien or no lien	470	76	398	-
Total	32,260	376	19,266	3,578

* Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided. The LTV constitutes additional indication of the Bank to evaluate the customer's credit risk when the facility was provided.

NOTE 29 -ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. CREDIT TO THE PUBLIC (CONT'D)

4. Purchase of credit to the public

Consolidated	Purchased credit to the public risk(1)							
	For the year ended December 31, 2022				For the year ended December 31, 2021			
	Credit to the public purchased this year	Off balance sheet credit risk(2) purchased this year	Of which: problematic credit	Balance at the end of the year	Credit to the public purchased this year	Off balance sheet credit risk(2) purchased this year	Of which: problematic credit	Balance at the end of the year
Total commercial	**6,285**	**-**	**2**	**1,798**	4,094	-	2	1,228
Total	**6,285**	**-**	**2**	**1,798**	4,094	-	2	1,228

(1) Commercial credit to the public purchased in the framework of factoring transactions.
(2) Credit risk relating to off-balance sheet financial instruments, as computed for the purpose of restrictions on indebtedness of a single borrower, excluding in respect of derivative instruments.

4. Syndication and participation in the syndication of loans

Consolidated	December 31, 2022					
	Syndication transactions initiated by the Bank(1)				Syndication transactions initiated by others	
					Balance at end of year	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)
Total commercial	**127**	**-**	**127**	**-**	**3,307**	**1,707**
Total	**127**	**-**	**127**	**-**	**3,307**	**1,707**

Consolidated	December 31, 2021					
	Syndication transactions initiated by the Bank(1)				Syndication transactions initiated by others	
					Balance at end of year	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)
Total commercial	167	-	167	-	2,105	1,259
Total	167	-	167	-	2,105	1,259

(1) Including where the Bank has provided material service in the syndication transaction.
(2) Credit risk relating to off-balance sheet financial instruments, as computed for the purpose of restrictions on indebtedness of a single borrower, excluding in respect of derivative instruments.

(NIS millions)

C. CLASSIFICATION OF CREDIT(2) AND CREDIT RISK OF OFF-BALANCE SHEET(3) ITEMS BY SIZE OF BORROWERS

Consolidated		December 31, 2022			December 31, 2021		
Size of credit per borrower		Number of borrowers(4)	Credit(1)(2)	Off-balance sheet credit risk (1)(3)	Number of borrowers (4)	Credit(1)(2)	Off-balance sheet credit risk (1)(3)
NIS thousands				NIS million			NIS million
	Up to 10	**214,304**	**331**	**695**	209,995	307	644
From 10	to 20	**82,064**	**442**	**872**	80,815	431	859
From 20	to 40	**104,990**	**1,210**	**2,024**	104,123	1,214	1,995
From 40	to 80	**109,252**	**3,006**	**3,480**	107,248	3,043	3,336
From 80	to 150	**83,834**	**5,953**	**3,465**	82,908	6,022	3,305
From 150	to 300	**55,059**	**8,890**	**2,643**	53,841	8,714	2,563
From 300	to 600	**30,809**	**11,433**	**1,843**	29,913	11,106	1,839
From 600	to 1,200	**26,859**	**20,448**	**2,349**	26,297	19,316	2,928
From 1,200	to 2,000	**7,962**	**10,248**	**1,552**	7,241	8,736	1,985
From 2,000	to 4,000	**2,653**	**5,629**	**1,427**	2,369	4,886	1,447
From 4,000	to 8,000	**996**	**4,145**	**1,474**	937	3,911	1,304
From 8,000	to 20,000	**727**	**6,517**	**2,642**	736	6,649	2,556
From 20,000	to 40,000	**299**	**6,348**	**2,089**	280	5,639	2,139
From 40,000	to 200,000	**294**	**17,612**	**6,924**	248	13,890	6,189
From 200,000	to 400,000	**42**	**8,014**	**3,249**	33	5,670	2,952
From 400,000	to 800,000	**13**	**3,936**	**3,046**	7	2,450	1,400
From 800,000	to 1,200,000	**6**	**3,902**	**1,633**	3	819	2,117
From 1,200,000	to 1,600,000	**-**	**-**	**-**	1	1,177	334
Total		**720,163**	**118,064**	**41,407**	706,995	103,980	39,892

(1) Credit and off-balance sheet credit risk are presented before the effect of the provision for credit losses, and before the effect of deductible collateral for the purposes of the indebtedness of a borrower.
(2) Credit to the public, investments in corporate bonds, other assets in respect of derivative instruments against the public, at a total of NIS 117,156 million, NIS 219 million and NIS 689 million, respectively (31.12.2021 - NIS 102,240 million, NIS 458 million and NIS 1,282 million, respectively).
(3) Credit risk relating to off-balance sheet financial instruments as calculated for the purpose of the limitation on indebtedness of a borrower.
(4) The number of borrowers according to the total credit and off-balance sheet credit risk.

NOTE 29 -ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

D. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	Consolidated				The Bank			
	Balance of contracts(1)		Balance of provision for credit losses		Balance of contracts(1)		Balance of provision for credit losses	
	December 31				December 31			
	2022	2021	2022	2021	2022	2021	2022	2021
Transactions the balance of which represents credit risk:								
Documentary credit	**572**	179	**1**	-	**571**	179	**1**	-
Guarantees securing credit	**1,174**	949	**10**	12	**1,007**	739	**10**	11
Guarantees to home purchasers	**4,325**	3,282	**9**	5	**4,265**	3,227	**8**	5
Guarantees and letters of indemnity to subsidiaries to secure credit granted by them	**-**	-	**-**	-	**1**	-	**-**	-
Guarantees and other liabilities	**5,141**	4,581	**46**	24	**5,031**	4,493	**44**	22
Unutilized credit lines for derivatives instruments	**3,303**	2,715	**-**	-	**3,302**	2,714	**-**	-
Unutilized revolving credit and other on-call credit facilities	**11,672**	11,738	**22**	20	**10,759**	10,862	**21**	20
Irrevocable commitments to grant credit, not yet executed	**6,042**	7,267	**18**	9	**6,017**	7,253	**18**	9
Unutilized credit lines for credit card facilities	**9,396**	8,650	**9**	5	**8,341**	7,705	**8**	5
Facilities for the lending of securities	**595**	548	**-**	-	**595**	548	**-**	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses (see Note 25(D,E)).	**220**	334	**-**	-	**220**	334	**-**	-
Commitments to issue guarantees	**1,387**	1,565	**2**	4	**1,358**	1,556	**2**	4

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.
(2) In addition, the Bank provided the courts with letters of self-undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

E. GUARANTIES

1. General

The Bank provides to its customers a large variety of guaranties and letters of indemnity in order to improve their credit ability and allow them to consummate different types of transactions. In the case of certain contracts that match the definit ion of guaranty, the Bank recognizes at the initial recognition date, a liability in the amount of the fair value of the obligation in respect of the guarantee on date of issue thereof. The maximum amount of the future potential payments is determined in accordance with the stated amount of the guaranty, without taking into account possible repayments or held or pledged collateral.

On December 31, 2022, the total written down cost of the liabilities in respect of guaranties, as detailed in the tables below, amounts to NIS 43 million (as of December 31, 2021 - NIS 39 million). The written down cost of financial and execution guaranties is included in the item "other liabilities".

2. Future potential payments

	Maximum amount of future potential payments									
	December 31, 2022					December 31, 2021				
	Expiry in one year or less	Expiry from one to three years	Expiry over three and up to five years	Total amount	Outstanding book balance	Expiry in one year or less	Expiry from one to three years	Expiry over three and up to five years	Total amount	Outstanding book balance
					NIS million					NIS million
Guaranties securing credit	**907**	**249**	**18**	**1,174**	**6**	650	282	17	949	6
Guaranties to home purchasers	**3,356**	**851**	**118**	**4,325**	**17**	1,580	1,569	133	3,282	13
Other guarantees and obligations	**4,312**	**880**	**741**	**5,933**	**20**	3,768	903	423	5,094	20
Commitments to issue guaranties	**284**	**727**	**376**	**1,387**	**-**	738	572	255	1,565	-
Total guaranties	**8,859**	**2,707**	**1,253**	**12,819**	**43**	6,736	3,326	828	10,890	39

3. Guaranty risk assessment

	Maximum amount of future potential payments							
	December 31, 2022				December 31, 2021			
	Rated in accordance with investment rating	Rated not in accordance with investment rating	Not rated	Total amount	Rated in accordance with investment rating	Rated not in accordance with investment rating	Not rated	Total amount
				NIS million				NIS million
Guaranties securing credit	**1,138**	**27**	**9**	**1,174**	919	23	7	949
Guaranties to home purchasers	**4,312**	**13**	**-**	**4,325**	3,269	13	-	3,282
Other guarantees and obligations	**5,632**	**238**	**63**	**5,933**	4,886	114	94	5,094
Commitments to issue guaranties	**1,151**	**236**	**-**	**1,387**	1,519	-	46	1,565
Total guaranties	**12,233**	**514**	**72**	**12,819**	10,593	150	147	10,890

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

Consolidated							December 31, 2022
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	53,993	-	2,178	488	471	-	57,130
Securities	6,806	1,193	6,178	1,388	-	445	16,010
Securities which were borrowed	12	-	-	-	-	-	12
Credit to the public, net[3]	95,804	14,095	3,955	1,298	89	720	115,961
Credit to the government	64	707	95	-	-	-	866
Investee company	-	-	-	-	-	687	687
Premises and equipment	-	-	-	-	-	902	902
Intangible assets	-	-	-	-	-	317	317
Assets in respect of derivative instruments	256	13	954	246	53	1,303	2,825
Other assets	827	14	23	1	-	380	1,245
Total assets	157,762	16,022	13,383	3,421	613	4,754	195,955
Liabilities							
Deposits from the public	130,157	5,990	26,095	3,680	1,627	720	168,269
Deposits from banks	4,662	-	140	6	13	-	4,821
Deposits from the Government	206	-	28	2	1	-	237
Bonds and subordinated capital notes	4	4,745	-	-	-	-	4,749
Liabilities in respect of derivative instruments	264	26	597	87	46	1,302	2,322
Other liabilities	4,344	73	50	5	1	49	4,522
Total liabilities	139,637	10,834	26,910	3,780	1,688	2,071	184,920
Difference	18,125	5,188	(13,527)	(359)	(1,075)	2,683	11,035
Non-hedging derivatives							
Derivative instruments (not including options)	(14,333)	(189)	13,107	335	1,080	-	-
Options in the money, net (in terms of underlying asset)	(195)	-	187	8	-	-	-
Options out of the money, net (in terms of underlying asset)	(165)	-	164	3	(2)	-	-
Total	3,432	4,999	(69)	(13)	3	2,683	11,035
Options in the money, net (present value of stated amount)	(204)	-	178	26	-	-	-
Options out of the money, net (present value of stated amount)	(552)	-	616	(27)	(37)	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 30 -ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

Consolidated	December 31, 2021						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	53,496	-	3,504	266	104	-	57,370
Securities	8,323	241	4,390	1,405	-	732	15,091
Securities which were borrowed	845	-	-	-	-	-	845
Credit to the public, net[3]	84,013	12,634	2,880	844	95	698	101,164
Credit to the government	48	763	-	-	-	-	811
Investee companies	-	-	-	-	-	713	713
Premises and equipment	-	-	-	-	-	931	931
Intangible assets	-	-	-	-	-	300	300
Assets in respect of derivative instruments	526	11	149	8	18	997	1,709
Other assets	843	5	24	2	-	662	1,536
Total assets	148,094	13,654	10,947	2,525	217	5,033	180,470
Liabilities							
Deposits from the public	120,343	6,298	21,870	3,158	1,080	698	153,447
Deposits from banks	4,751	-	330	36	27	-	5,144
Deposits from the Government	857	-	101	1	1	-	960
Bonds and subordinated capital notes	6	3,350	-	-	-	-	3,356
Liabilities in respect of derivative instruments	793	18	182	42	6	997	2,038
Other liabilities	4,560	121	42	5	2	358	5,088
Total liabilities	131,310	9,787	22,525	3,242	1,116	2,053	170,033
Difference	16,784	3,867	(11,578)	(717)	(899)	2,980	10,437
Non-hedging derivatives:							
Derivative instruments (not including options)	(11,338)	(213)	10,070	586	895	-	-
Options in the money, net (in terms of underlying asset)	(1,104)	-	957	145	2	-	-
Options out of the money, net (in terms of underlying asset)	(436)	-	447	(11)	-	-	-
Total	3,906	3,654	(104)	3	(2)	2,980	10,437
Options in the money, net (present value of stated amount)	(1,701)	-	1,453	247	1	-	-
Options out of the money, net (present value of stated amount)	(1,975)	-	1,909	64	2	-	-

NOTE 30 -ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank							December 31, 2022
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	52,850	421	2,176	486	470	-	56,403
Securities	6,156	1,179	6,155	1,280	-	445	15,215
Securities which were borrowed	12	-	-	-	-	-	12
Credit to the public, net[3]	90,040	13,817	3,949	1,289	89	720	109,904
Credit to the government	64	-	94	-	-	-	158
Investee companies	-	-	-	-	-	1,403	1,403
Premises and equipment	-	-	-	-	-	879	879
Intangible assets	-	-	-	-	-	311	311
Assets in respect of derivative instruments	256	13	954	246	53	1,303	2,825
Other assets	787	12	23	-	-	344	1,166
Total assets	150,165	15,442	13,351	3,301	612	5,405	188,276
Liabilities							
Deposits from the public	122,126	7,776	25,800	3,505	1,613	720	161,540
Deposits from banks	6,442	312	404	36	29	-	7,223
Deposits from the Government	206	-	28	2	1	-	237
Bonds and subordinated capital notes	4	2,361	-	-	-	-	2,365
Liabilities in respect of derivative instruments	264	26	600	94	46	1,302	2,332
Other liabilities	3,846	69	49	6	1	49	4,020
Total liabilities	132,888	10,544	26,881	3,643	1,690	2,071	177,717
Difference	17,277	4,898	(13,530)	(342)	(1,078)	3,334	10,559
Non-hedging derivatives:							
Derivative instruments (not including options)	(14,316)	(189)	13,106	319	1,080	-	-
Options in the money, net (in terms of underlying asset)	(195)	-	187	8	-	-	-
Options out of the money, net (in terms of underlying asset)	(165)	-	164	3	(2)	-	-
Total	2,601	4,709	(73)	(12)	-	3,334	10,559
Options in the money, net (present value of stated amount)	(204)	-	178	26	-	-	-
Options out of the money, net (present value of stated amount)	(552)	-	616	(27)	(37)	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 30 -ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank							December 31, 2021
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	52,328	403	3,503	263	104	-	56,601
Securities	7,704	238	4,361	1,313	-	732	14,348
Securities which were borrowed	845	-	-	-	-	-	845
Credit to the public, net[3]	78,632	12,452	2,876	836	95	698	95,589
Credit to the Government	48	-	-	-	-	-	48
Investee companies	-	-	-	-	-	1,351	1,351
Premises and equipment	-	-	-	-	-	906	906
Intangible assets and goodwill	-	-	-	-	-	294	294
Assets in respect of derivative instruments	526	11	150	10	18	997	1,712
Other assets	812	3	24	1	-	620	1,460
Total assets	140,895	13,107	10,914	2,423	217	5,598	173,154
Liabilities							
Deposits from the public	112,637	8,124	21,500	2,987	1,066	698	147,012
Deposits from banks	6,461	297	669	109	42	-	7,578
Deposits from the Government	857	-	101	1	1	-	960
Bonds and subordinated capital notes	6	956	-	-	-	-	962
Liabilities in respect of derivative instruments	793	18	182	42	6	997	2,038
Other liabilities	4,077	119	41	5	2	357	4,601
Total liabilities	124,831	9,514	22,493	3,144	1,117	2,052	163,151
Difference	16,064	3,593	(11,579)	(721)	(900)	3,546	10,003
Non-hedging derivatives:							
Derivative instruments (not including options)	(11,338)	(213)	10,070	586	895	-	-
Options in the money, net (in terms of underlying asset)	(1,104)	-	957	145	2	-	-
Options out of the money, net (in terms of underlying asset)	(436)	-	447	(11)	-	-	-
Total	3,186	3,380	(105)	(1)	(3)	3,546	10,003
Options in the money, net (present value of stated amount)	(1,701)	-	1,453	247	1	-	-
Options out of the money, net (present value of stated amount)	(1,975)	-	1,909	64	2	-	-

NOTE 31 -ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1)

Consolidated	Future expected cash flows				
	December 31, 2022				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**75,498**	**6,730**	**19,150**	**17,514**	**12,860**
Liabilities	**104,502**	**24,951**	**9,115**	**4,231**	**3,402**
Difference	**(29,004)**	**(18,221)**	**10,035**	**13,283**	**9,458**
Derivative instruments (except options)	**(8,317)**	**(6,581)**	**616**	**(271)**	**-**
Options (in terms of underlying assets)	**(95)**	**(160)**	**(116)**	**-**	**-**
Difference after effect of derivative instruments	**(37,416)**	**(24,962)**	**10,535**	**13,012**	**9,458**
Foreign currency					
Assets	**5,161**	**2,873**	**3,806**	**2,892**	**663**
Liabilities	**24,433**	**5,924**	**2,138**	**105**	**82**
Difference	**(19,272)**	**(3,051)**	**1,668**	**2,787**	**581**
Of which: Difference in U.S. dollar	**(15,305)**	**(3,252)**	**1,475**	**1,620**	**386**
Derivative instruments (except options)	**8,317**	**6,581**	**(616)**	**271**	**-**
Options (in terms of underlying assets)	**95**	**160**	**116**	**-**	**-**
Difference after effect of derivative instruments	**(10,860)**	**3,690**	**1,168**	**3,058**	**581**
Total					
Assets*	**80,659**	**9,603**	**22,956**	**20,406**	**13,523**
Liabilities**	**128,935**	**30,875**	**11,253**	**4,336**	**3,484**
Difference	**(48,276)**	**(21,272)**	**11,703**	**16,070**	**10,039**
* Of which: Credit to the public	**21,890**	**8,507**	**19,494**	**17,083**	**10,538**
** Of which: Deposits from the public	**126,182**	**29,794**	**7,907**	**1,941**	**769**

	December 31, 2021				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets*	77,073	6,503	19,273	13,962	11,595
Liabilities**	134,119	14,534	6,944	2,880	3,441
Difference	(57,046)	(8,031)	12,329	11,082	8,154
* Of which: Credit to the public	18,099	6,149	17,179	12,167	9,206
** Of which: Deposits from the public	130,082	13,582	5,753	793	960

(1) This note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 231 million (31.12.21 - NIS 337 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 4,401 million (31.12.21 - NIS 3,736 million). Credit in excess of credit facility in the amount NIS 190 million, classified without maturity date (31.12.21 - NIS 228 million).

						Balance-sheet balance (3)		
Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows(5)	Without maturity date(2)(5)	Total	Contractual return rate(4)
							NIS million	Percent
11,174	**7,225**	**22,509**	**19,407**	**6,227**	**198,294**	**171**	**173,867**	**4.35**
1,090	**703**	**1,327**	**2,203**	**103**	**151,627**	**15**	**150,519**	**1.40**
10,084	**6,522**	**21,182**	**17,204**	**6,124**	**46,667**	**156**	**23,348**	
-	**-**	**-**	**-**	**-**	**(14,553)**	**-**	**(14,522)**	
-	**-**	**-**	**-**	**-**	**(371)**	**-**	**(360)**	
10,084	**6,522**	**21,182**	**17,204**	**6,124**	**31,743**	**156**	**8,466**	
968	**627**	**1,569**	**177**	**-**	**18,736**	**62**	**17,334**	**4.43**
70	**54**	**148**	**-**	**-**	**32,954**	**-**	**32,330**	**4.09**
898	**573**	**1,421**	**177**	**-**	**(14,218)**	**62**	**(14,996)**	
801	**173**	**1,101**	**-**	**-**	**(13,001)**	**35**	**(13,559)**	
-	**-**	**-**	**-**	**-**	**14,553**	**-**	**14,522**	
-	**-**	**-**	**-**	**-**	**371**	**-**	**360**	
898	**573**	**1,421**	**177**	**-**	**706**	**62**	**(114)**	
12,142	**7,852**	**24,078**	**19,584**	**6,227**	**217,030**	**233**	**191,201**	**4.35**
1,160	**757**	**1,475**	**2,203**	**103**	**184,581**	**15**	**182,849**	**1.51**
10,982	**7,095**	**22,603**	**17,381**	**6,124**	**32,449**	**218**	**8,352**	
8,091	**6,591**	**21,320**	**19,395**	**5,847**	**138,756**	**220**	**115,241**	**4.48**
727	**377**	**155**	**102**	**-**	**167,954**	**-**	**167,549**	**1.17**

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows(5)	Without maturity date(2)(5)	Total	Contractual return rate(4)
							NIS million	Percent
9,821	9,380	20,633	14,972	4,115	187,327	352	175,437	2.23
3,018	982	2,039	453	132	168,542	10	167,980	0.54
6,803	8,398	18,594	14,519	3,983	18,785	342	7,457	
7,205	5,757	17,302	14,814	3,746	111,624	337	100,466	2.44
549	657	390	90	-	152,856	-	152,749	0.36

NOTE 31 -ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1) (CONT'D)

The bank	Future expected cash flows				
	December 31, 2022				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**73,531**	**6,284**	**17,676**	**16,268**	**11,766**
Liabilities	**97,033**	**24,050**	**9,664**	**4,684**	**3,728**
Difference	**(23,502)**	**(17,766)**	**8,012**	**11,584**	**8,038**
Derivative instruments (except options)	**(8,300)**	**(6,581)**	**616**	**(271)**	**-**
Options (in terms of underlying assets)	**(95)**	**(160)**	**(116)**	**-**	**-**
Difference after effect of derivative instruments	**(31,897)**	**(24,507)**	**8,512**	**11,313**	**8,038**
Foreign currency					
Assets	**5,149**	**2,872**	**3,807**	**2,819**	**668**
Liabilities	**24,074**	**5,996**	**2,260**	**108**	**85**
Difference	**(18,925)**	**(3,124)**	**1,547**	**2,711**	**583**
Of which: Difference in U.S. dollar	**(15,113)**	**(3,323)**	**1,378**	**1,619**	**385**
Derivative instruments (except options)	**8,300**	**6,581**	**(616)**	**271**	**-**
Options (in terms of underlying assets)	**95**	**160**	**116**	**-**	**-**
Difference after effect of derivative instruments	**(10,530)**	**3,617**	**1,047**	**2,982**	**583**
Total					
Assets*	**78,680**	**9,156**	**21,483**	**19,087**	**12,434**
Liabilities**	**121,107**	**30,046**	**11,924**	**4,792**	**3,813**
Difference	**(42,427)**	**(20,890)**	**9,559**	**14,295**	**8,621**
* Of which: Credit to the public	**21,115**	**8,060**	**17,989**	**15,847**	**9,588**
** Of which: Deposits from the public	**118,432**	**28,872**	**7,772**	**1,988**	**2,531**

	Future expected cash flows				
	December 31, 2020				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets*	75,131	6,146	17,882	12,943	10,707
Liabilities**	125,918	14,234	7,568	3,727	3,656
Difference	(50,787)	(8,088)	10,314	9,216	7,051
* Of which: Credit to the public	17,381	5,790	15,795	11,146	8,387
** Of which: Deposits from the public	121,865	13,238	5,721	896	1,065

(1) This note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.
(2) Including overdue amounts of NIS 220 million (31.12.21 - NIS 328 million).
(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.
(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this note in respect of a financial item, to its stated balance.
(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 4,002 million (31.12.21 - NIS 3,378 million). Credit in excess of credit facility in the amount NIS 179 million, classified without maturity date (31.12.21 - NIS 218 million).

	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows(5)	Balance-sheet balance (3) Without maturity date(2)(5)	Total	Contractual return rate(4)
								NIS million	Percent
	9,796	**6,687**	**21,460**	**19,343**	**6,227**	**189,038**	**160**	**165,689**	**4.31**
	1,212	**680**	**1,281**	**2,173**	**103**	**144,608**	**15**	**143,482**	**1.46**
	8,584	**6,007**	**20,179**	**17,170**	**6,124**	**44,430**	**145**	**22,207**	
	-	**-**	**-**	**-**	**-**	**(14,536)**	**-**	**(14,505)**	
	-	**-**	**-**	**-**	**-**	**(371)**	**-**	**(360)**	
	8,584	**6,007**	**20,179**	**17,170**	**6,124**	**29,523**	**145**	**7,342**	
	959	**588**	**1,551**	**177**	**-**	**18,590**	**62**	**17,182**	**4.48**
	70	**58**	**151**	**-**	**-**	**32,802**	**-**	**32,164**	**4.10**
	889	**530**	**1,400**	**177**	**-**	**(14,212)**	**62**	**(14,982)**	
	793	**172**	**1,080**	**-**	**-**	**(13,009)**	**34**	**(13,560)**	
	-	**-**	**-**	**-**	**-**	**14,536**	**-**	**14,505**	
	-	**-**	**-**	**-**	**-**	**371**	**-**	**360**	
	889	**530**	**1,400**	**177**	**-**	**695**	**62**	**(117)**	
	10,755	**7,275**	**23,011**	**19,520**	**6,227**	**207,628**	**222**	**182,871**	**4.31**
	1,282	**738**	**1,432**	**2,173**	**103**	**177,410**	**15**	**175,646**	**1.57**
	9,473	**6,537**	**21,579**	**17,347**	**6,124**	**30,218**	**207**	**7,225**	
	7,396	**6,099**	**20,423**	**19,331**	**5,847**	**131,695**	**220**	**109,184**	**4.38**
	878	**522**	**120**	**74**	**-**	**161,189**	**-**	**160,820**	**1.19**

	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows(5)	Balance-sheet balance (3) Without maturity date(2)(5)	Total	Contractual return rate(4)
								NIS million	Percent
	9,074	8,353	19,573	14,942	4,115	178,866	342	167,555	2.21
	3,044	969	1,992	425	132	161,665	10	161,099	0.57
	6,030	7,384	17,581	14,517	3,983	17,201	332	6,456	
	6,586	5,321	16,570	14,784	3,746	105,506	328	94,890	2.38
	2,233	803	514	65	-	146,400	-	146,314	0.37

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

					Consolidated
					December 31, 2022
	Stated in the				Fair value(1)
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	**57,130**	**654**	**56,473**	**-**	**57,127**
Securities(2)	**16,010**	**7,984**	**7,705**	**143**	**15,832**
Securities which were borrowed	**12**	**-**	**12**	**-**	**12**
Credit to the public, net	**115,961**	**8,388**	**-**	**104,731**	**113,119**
Credit to the government	**866**	**-**	**157**	**683**	**840**
Assets in respect of derivative instruments	**2,825**	**1,358**	**825**	**642**	**2,825**
Other financial assets	**216**	**26**	**-**	**189**	**215**
Total financial assets	(3)**193,020**	**18,410**	**65,172**	**106,388**	**189,970**
Financial liabilities					
Deposits from the public	**168,269**	**6,484**	**117,313**	**41,047**	**164,844**
Deposits from Banks	**4,821**	**-**	**622**	**4,007**	**4,629**
Deposits from the Government	**237**	**-**	**206**	**32**	**238**
Bonds and non-convertible subordinated capital notes	**4,749**	**4,514**	**-**	**3**	**4,517**
Liabilities in respect of derivative instruments	**2,322**	**1,359**	**937**	**26**	**2,322**
Other financing liabilities	**2,949**	**26**	**-**	**2,901**	**2,927**
Total financial liabilities	(3)**183,347**	**12,383**	**119,078**	**48,016**	**179,477**
Off balance sheet financial instruments					
Transactions were the balance represents credit risk	**43**	**-**	**-**	**43**	**43**
In addition, the liability in respect of employee rights, gross - pension and severance pay(4)	**833**	**-**	**-**	**833**	**833**

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".

(3) Of which: assets of NIS 23,907 and liabilities of NIS 8,832, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32B-32D.

(4) The liability is shown gross, without taking into account the plan assets managed against it.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

	Consolidated				
	December 31, 2021				
	Stated in the Balance Sheet	Fair value[1] (1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	57,370	665	56,705	-	57,370
Securities[2]	15,091	9,112	5,999	78	15,189
Securities which were borrowed	845	-	845	-	845
Credit to the public, net	101,164	5,817	1	95,569	101,387
Credit to the government	811	-	48	768	816
Assets in respect of derivative instruments	1,709	1,141	319	249	1,709
Other financial assets	546	333	-	213	546
Total financial assets	[3]177,536	17,068	63,917	96,877	177,862
Financial liabilities					
Deposits from the public	153,447	5,009	113,439	34,439	152,887
Deposits from Banks	5,144	-	939	4,175	5,114
Deposits from the Government	960	537	393	34	964
Bonds and non-convertible subordinated capital notes	3,356	3,437	-	84	3,521
Liabilities in respect of derivative instruments	2,038	1,176	844	18	2,038
Other financing liabilities	3,451	641	-	2,809	3,450
Total financial liabilities	[3]168,396	10,800	115,615	41,559	167,974
Off balance sheet financial instruments					
Transactions were the balance represents credit risk	39	-	-	39	39
In addition, the liability in respect of employee rights, gross - pension and severance pay[4]	987	-	-	987	987

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".

(3) Of which: assets of NIS 20,296 and liabilities of NIS 8,225 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32B-32D.

(4) The liability is shown gross, without taking into account the plan assets managed against it.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

A. FAIR VALUE OF FINANCIAL INSTRUMENTS.

The note includes information regarding the fair value of financial instruments. There is no quotable "market value" for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the risk level inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

B. PRINCIPAL METHODS AND ASSUMPTIONS USED FOR THE CALCULATION OF THE FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

Marketable securities - fair value was estimated according to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

Credit to the public - The fair value was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.
The fair value of non-accruing debts is assessed using discount rates that reflect the high credit risk inherent in such debts. Anticipated future cash flows in respect of non-accruing debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.
Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.
Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model.

Deposits and subordinate capital notes - fair value was estimated by discounting future cash flows according to interest rates used by the Group in raising similar deposits, or issuing similar capital notes (if a quoted price on an active market is not available) at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices or on traders' quotations regarding a similar liability traded as an asset on an active market.
Cashflows with respect to demand deposits (current accounts) were distributed based on statistical model for forecasting stable balances.
Cashflows in respect of deposits from the public were estimated according to premature repayment forecast, which is based on a statistical model.

Derivative financial instruments - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.
Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

Off-balance sheet financial instruments in transactions the balance of which represents credit risk - the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

NOTE 32B - ITEMS MEASURED AT FAIR VALUE
(NIS million)

A. ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS

	December 31, 2022				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Total fair value
Assets					
Bonds available for sale	**4,864**	**7,537**	**-**	**-**	**12,401**
Shares not for trading	**240**	**-**	**-**	**-**	**240**
Trading Securities	**27**	**-**	**-**	**-**	**27**
Assets in respect of derivative instruments	**1,358**	**825**	**642**	**-**	**2,825**
Others	**8,414**	**-**	**-**	**-**	**8,414**
Total assets	**14,903**	**8,362**	**642**	**-**	**23,907**
Liabilities					
Liabilities in respect of derivative instruments	**1,359**	**937**	**26**	**-**	**2,322**
Others	**6,510**	**-**	**-**	**-**	**6,510**
Total liabilities	**7,869**	**937**	**26**	**-**	**8,832**

	December 31, 2021				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Total fair value
Assets					
Bonds available for sale	5,888	5,751	-	-	11,639
Shares not for trading	565	-	-	-	565
Trading Securities	233	-	-	-	233
Assets in respect of derivative instruments	1,141	319	249	-	1,709
Others	6,150	-	-	-	6,150
Total assets	13,977	6,070	249	-	20,296
Liabilities					
Liabilities in respect of derivative instruments	1,176	844	18	-	2,038
Others	6,187	-	-	-	6,187
Total liabilities	7,363	844	18	-	8,225

NOTE 32B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

B. ITEMS MEASURED AT FAIR VALUE ON A NONRECURRENT BASIS

	December 31, 2022				
	Level 1	Level 2	Level 3	Total fair value	Losses in respect of value changes for the year ended December 31, 2022
Investment in shares	**-**	**62**	**-**	**62**	**(9)**
Non-accruing credit the collection of which is contingent on collateral	**-**	**-**	**12**	**12**	**-**

	December 31, 2021				
	Level 1	Level 2	Level 3	Total fair value	Profit in respect of value changes for the year ended December 31, 2021
Investment in shares	-	87	-	87	10
Non-accruing credit the collection of which is contingent on collateral	-	1	16	17	1

NOTE 32C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

	For the year ended 31, December 2022							
	Fair value as at December 31, 2021	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2022	Unrealized profits (losses) in respect of instruments held as at December 31, 2022
Assets								
Assets in respect of derivative instruments	**249**	**3,890**	**81**	**(3,578)**	**-**	**-**	**642**	**576**
Liabilities								
Liabilities in respect of derivative instruments	**18**	**(7)**	**-**	**1**	**-**	**-**	**26**	**(11)**

	For the year ended 31, December 2021							
	Fair value as at December 31, 2020	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2021	Unrealized profits (losses) in respect of instruments held as at December 31, 2021
Assets								
Assets in respect of derivative instruments	376	1,102	49	(1,278)	-	-	249	284
Liabilities								
Liabilities in respect of derivative instruments	13	(9)	-	(4)	-	-	18	(7)

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 32D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

					as of December 31, 2022
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	7	0.71	0.47-1.08
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	22	1.41	1.20-1.55
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	5	0.06	(0.14)-0.23
		2. Counter-party credit risk	608	1.29	1.00-4.52
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	21	0.86	0.47-1.09
Foreign currency contracts	Discounted cash flow	CPI-linked interest	5	0.06	(0.14)-0.23
B. Items measured at fair value on a non-recurrent basis					
Non-accruing credit the collection of which is contingent on collateral	Collaterals value		12		

					as of December 31, 2021
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	1	(2.19)	(2.32)-(2.09)
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	8	1.61	1.20-1.75
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	10	(2.73)	(3.64)-(2.39)
		2. Counter-party credit risk	230	1.48	1.00-4.60
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	8	(1.88)	(2.35)-(1.64)
Foreign currency contracts	Discounted cash flow	CPI-linked interest	10	(2.73)	(3.64)-(2.39)
B. Items measured at fair value on a non-recurrent basis					
Non-accruing credit the collection of which is contingent on collateral	Collaterals value		16		

Qualitative information regarding items measured at fair value at level 3:

- Interest linked to the CPI - A change in the forecasted inflation rate would affect the fair value of CPI linked transactions, such that a rise (decline) in the inflationary forecast would lead to an increase (decrease) in fair value in accordance with the CPI linkage position of the Bank.
- Credit risk of a counterparty - A change in the credit risk of a counterparty to a transaction, such that in as much as the credit risk of a counterparty to a transaction would be higher/lower, the value of the transaction would also be higher/lower.

NOTE 33 - INTERESTED AND RELATED PARTIES

(NIS million)

A. BALANCES

	December 31, 2022			
	Interested parties(1)			
	Shareholders			
	Controlling shareholders(2)		Others(3)	
	Year-end balance	Highest balance during the year (5)	Year-end balance	Highest balance during the year (5)
Credit to the public	**-**	**-**	**-**	**-**
Investment in equity-basis investees(9)	**-**	**-**	**-**	**-**
Other assets	**-**	**-**	**-**	**-**
Deposits from the public	**2**	**4**	**-**	**-**
Other liabilities	**-**	**-**	**-**	**-**
Shares (included in shareholders' equity)(10)	**5,104**	**5,104**	**-**	**-**
Credit risk in off- balance sheet financial instrument(9)(11)	**-**	**-**	**-**	**-**

	December 31, 2021			
	Interested parties(1)			
	Shareholders			
	Controlling shareholders(2)		Others(3)	
	Year-end balance	Highest balance during the year (5)	Year-end balance	Highest balance during the year (5)
Credit to the public	-	-	-	-
Investment in equity-basis investees(9)	-	-	-	-
Other assets	-	-	-	-
Deposits from the public	3	12	165	165
Other liabilities	-	-	-	-
Shares (included in shareholders' equity)(10)	4,835	4,835	-	-
Credit risk in off- balance sheet financial instrument(9)(11)	-	-	1	1

Note: For notes to the table see page 264.

B. CONDENSED RESULTS OF TRANSACTIONS WITH RELATED AND INTERESTED PARTIES

	Interested parties (1)								
	Shareholders								
	Controlling shareholders(2)			Others(3)			Office-holders (4)		
	For the year ended December 31			For the year ended December 31			For the year ended December 31		
Statement of income items	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**
Net interest income*	**-**	-	-	**-**	-	-	**-**	-	-
Non-interest income (expense)	**-**	1	-	**-**	-	-	**-**	-	-
Operating and other expenses**	**-**	-	-	**-**	-	-	**36**	35	29
Total	**-**	1	-	**-**	-	-	**(36)**	(35)	(29)

* Details are provided in D below.

** Details are provided in C below.

Interested parties[1]						Related parties held by the Bank[1]			
Office-holders[4]		Others[6]		Whoever was an interested party at the time of the transaction		Equity basis investees[7]		others[8]	
Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
12	**13**	**32**	**44**	**141**	**1,968**	**631**	**632**	**11**	**12**
-	**-**	**-**	**-**	**-**	**-**	**687**	**687**	**-**	**-**
-	**-**	**-**	**-**	**20**	**22**	**-**	**-**	**-**	**-**
10	**17**	**1,122**	**1,606**			**8**	**54**	**67**	**104**
30	**30**	**-**	**-**			**3**	**15**	**-**	**-**
-	**-**	**-**	**-**			**-**	**-**	**-**	**-**
3	**4**	**50**	**50**	**25**	**57**	**205**	**760**	**1**	**1**

Interested parties[1]						Related parties held by the Bank[1]			
Office-holders[4]		Others[6]		Whoever was an interested party at the time of the transaction		Equity basis investees[7]		others[8]	
Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
10	11	1,423	1,460	3	3	80	582	12	13
-	-	-	-	-	-	713	713	-	-
-	-	-	-	-	-	-	1	-	-
11	19	2,272	3,485			14	14	86	138
31	31	1	2			1	2	-	-
-	-	-	-			-	1	-	-
3	5	78	81	-	-	426	426	1	1

Interested parties			Related parties held by the Bank [1]					
Others [6]			Equity basis investees [7]			Others [8]		
For the year ended December 31			For the year ended December 31			For the year ended December 31		
2022	2021	2020	**2022**	2021	2020	**2022**	2021	2020
(16)	(9)	-	**12**	2	3	**-**	-	-
(26)	37	-	**(15)**	(2)	(2)	**-**	-	-
9	6	6	**-**	-	-	**-**	-	-
(51)	22	(6)	**(3)**	-	1	**-**	-	-

NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)

(NIS million)

C. BENEFITS TO INTERESTED PARTIES (BY THE BANK AND ITS INVETEES)

	Salaries to interested parties (by the Bank and its investees)*					
	For the year ended December 31, 2022		For the year ended December 31, 2021		For the year ended December 31, 2020	
	Office-holders(4)		Office-holders(4)		Office-holders(4)	
	Total benefits	Number of Recipients	Total benefits	Number of Recipients	Total benefits	Number of Recipients
An interested parties employed by the Bank	****30**	**16**	**31	15	**25	16
Directors not employed by the Bank	**6**	**9**	4	10	4	12

* Not including VAT on salary.

** Of which: employee benefits for short term - NIS 28 million (2021 - NIS 29 million, 2020 - NIS 24 million), other benefits after termination of employment - NIS 2 million (2021 - NIS 2 million, 2020 - NIS 1 million).

Notes:

(1) Interested party, related party, related person - within the definition in Section 80(d) of the public reporting instructions.
(2) Controlling shareholders and their kin - in accordance with Section 80(d)(1) of the public reporting instructions.
(3) Other shareholders - including whoever holds 5% or more of the means of control of a banking corporation, and whoever is entitled to appoint one or more directors to the board of directors of a banking corporation or its general manager - in accordance with Section 80(d)(2) of the public reporting instructions.
(4) Officers - in accordance with Section 80(d)(3) of the public reporting instructions.
(5) On the basis of the outstanding balance at month-end.
(6) In accordance with Section 80(d)(4) of the public reporting instructions- in respect of corporations in which, a person or a corporation, included in one of the groups of interested parties according to the Securities Act, holds twenty-five percent or over of their issued share capital or of the voting therein, or is entitled to appoint twenty-five percent or over of their number of directors.
(7) Equity based investees - in accordance with Section 80(d)(7) of the public reporting instructions.
(8) In accordance with Section 80(d)(8) of the public reporting instructions.
(9) Details of this item is included also in Note 15 - Investee companies.
(10) Holdings by interested and related parties in the equity of a banking corporation.
(11) Credit risk inherent in off-balance sheet financial instruments, as computed for the purpose of limitations applying to a single borrower.

D. NET INTEREST INCOME IN RESPECT OF TRANSACTIONS WITH INTERESTED AND RELATED PARTIES*

	Consolidated			of which: investee companies		
	For the year ended December 31			For the year ended December 31		
	2022	2021	2020	2022	2021	2020
In respect of assets						
From credit to the public	**13**	**3**	3	12	2	3
In respect of liabilities						
On deposits from the public	**(17)**	(10)	-	**-**	-	-
Total net interest income (expense)	**(4)**	(7)	3	**12**	2	3

* For information regarding the terms of transactions and outstanding balances with related and interested parties, see Note 33E, below.

For notes to the table see page 264.

NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)

E. AQUISITION OF CONTROL OF THE BANK

On September 19, 2003, the control of FIBI Holdings Ltd. (hereinafter - “FIBI”), the parent company of the Bank, was transferred to Binohon Ltd. and the Australian Lieberman Group (composed of the Michael and Helen Abeles family and the Lieberman family (Messrs. Barry Liebrman, Cassy Lieberman-Harris, Lee Lieberman and Joshua Lieberman), by way of Instanz Holdings Ltd. and Dolphin Energies Ltd. in equal parts). The purchasers have between them a voting and cooperation agreement.
The transfer of control was in accordance of a permit issued by the Governor of Bank of Israel on August 27, 2003 to purchase the control and the means to control in FIBI Holdings Ltd. and The First International Bank of Israel Ltd. granted according to the Banking Law (licensing) 1981.
The permit states different condition and liabilities as to the holding of the means of control, their transfer and the relations between the permit holders, FIBI and the Bank.

The permit states that no dividend shall be distributed out of earnings retained by the Bank as of March 31, 2003, and in the event that the Bank would sustain losses subsequent to that date - no dividend shall be distributed until such losses are recovered. The balance of distributable retained earnings as of March 31, 2003 amounted to NIS 2,391 million.

In accordance with amendments to the permit from time to time, and in accordance with reports by FIBI:
Since 2015 Mr. Zadik Bino and his children, Messrs. Gil Bino, Hadar Bino Shmueli and Daphna Bino Or hold in equal parts the means of control in Binohon (each of them holding 25%).
On March 24, 2013, Instanz Holdings transferred to Instanz Number 2 Ltd. (hereinafter - "Instanz 2"), all the holdings of Instanz Holdings in FIBI. Instanz 2 is wholly owned (through Australian entities) by Messrs. Helen and Michael Abeles, who also fully control Instanz Holdings (through the same Australian entities). Upon the transfer of the shares, Instanz 2 joined as a party the shareholder agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz Holdings continues as a party to the shareholder agreement and is a guarantor for the obligations of Instanz 2.
According to FIBI's report, as of the date of the financial statements, the holdings of the controlling shareholders in FIBI (in the equity and voting rights) is as follows: Binohon Ltd.- 28.54%, Instanz 2 Ltd.- 11.68% and Dolphin Energies Ltd.- 11.68% of the equity of FIBI (the holdings of all the controlling shareholders in FIBI comprise the core control therein, in accordance with the control permit granted by Bank of Israel).
FIBI holds 48.34% of the equity and voting rights in the Bank (a rate comprising the core control, in accordance with the Bank of Israel permit).

F. (1) The employment agreement of the CEO, Mrs. Smadar Berber-Tsadik, was for a period of five years, starting on March 19, 2007, with a provision that at the end of the initial period of the agreement, the agreement will continue for an unspecified period, and each party will be entitled to bring about its termination by means of a written notice of three months in advance. Following the publication of the Compensation of Officers of Financial Corporations (Special permit and the nondeducibility tax wise of exceptional compensation) Act, 2016 (hereinafter - "the Compensation Act"), the General Meeting of Shareholders approved on November 20, 2016 the terms of employment of the CEO of the Bank, Mrs. Smadar Berber-Tsadik. These terms apply as from October 12, 2016 (hereinafter - "the beginning date"), taking into consideration the provisions of the Compensation Act (hereinafter - "the terms of employment"), with nothing in the employment terms detracting from the rights of the CEO accumulated prior to the beginning date.

In accordance with the employment terms, the maximum annual fixed compensation of the CEO of the Bank shall equal the maximum amount stated in Section 2(a) of the Compensation Act (not including payments and allowances in respect of severance compensation and pension in accordance with statutory provisions, as detailed in the terms of employment). To the extent that the permissible maximum amount in accordance with the Compensation Act (including in accordance with Section 2(b) of the Act) allows, the component of fixed compensation of the CEO will be increased by an additional fixed component, which is not to exceed the amount of 2.5 salaries per year. In respect of the additional fixed compensation component, the Bank shall provide for payments and allowances in respect of severance compensation and pension in accordance with statutory provisions. Accordingly, the annual fixed compensation in respect of 2022 is the maximum permissible amount stated in section 2(b) of the compensation act in respect of the year 2022.

The salary of the CEO is linked to the CPI in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The CEO is entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her employment terms. The CEO is entitled to a company car and to its maintenance expenses. The CEO is entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum compensation (as defined in the employment terms).

In accordance with the employment terms, the Bank or the CEO are entitled to inform the other party, at any time during the employment period, of the termination of the employment, by giving a prior notice of three months. During the period of the prior notice, if the CEO continues in office, she would be entitled to a monthly salary and related benefits. The cost of the monthly salary and of the related benefits during the period of advance notice, has been provided in full in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, if the Bank decides not to continue the employment of the CEO during the period of advance notice.

The terms of employment define a non-competition period of three months with full pay, the cost of which as part of the previous employment terms of the CEO, had been provided in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, in the case of termination of employer/employee relations in accordance with the terms of employment.

The Compensation Committee and the Board of Directors are entitled to grant to the CEO an annual award not exceeding the amount of two monthly salaries, if in their opinion justifiable reasons exist, and subject to the maximum amount permitted by Section 2(b) of the Compensation Act.

In respect of her period of employment as from the beginning date, the CEO would be entitled to severance pay in accordance with the Severance Pay Act, 1963, and Regulations under it, based on the monthly salary in effect on date of termination of employer/employee relations, or to the funds and right accumulated to her credit under the pension arrangements in respect of the allowances for severance compensation during the period following the beginning date, the higher of the two. The CEO is entitled to severance compensation in accordance with statutory provisions and to enlarged severance compensation for the period of her employment up to the beginning date, which had been provided on a current basis in the financial statements of the Bank until the beginning date, had been deposited to her credit with appropriate Funds and would be released in her favor at date of termination of employment relations.

If the expense regarding the payroll cost of the CEO, which is borne by the Bank in the tax year, exceeds the "maximum amount payable" as defined in Section 4 of the Compensation Act, a part of the compensation payable to the CEO would not be deductible tax wise, as stated in Section 4 of the Compensation Act.

(2) Terms of employment of the chairman of the Board of Directors of the Bank:

Mr. Ron Levkovich was appointed Director and Chairman of the Board of Directors of the Bank on September 15, 2020. His appointment as Director, approved also by the general meeting of shareholders of the Bank held on November 5, 2020, is for a period of up to three years from date of approval by the meeting. The terms of office of the Chairman of the Board are for an unspecified period, and each party to the agreement may terminate it by a prior notice in writing of three months. The maximum fixed amount of remuneration of the Chairman of the Board is NIS 2,834 thousand per annum (including payment and provisions for severance pay and pension in accordance with the law and a provision in respect of a non-competition period, as stated in the terms of engagement). The maximum amount of the fixed remuneration is linked to the Consumer Price Index. The Chairman of the Board is entitled to contributions to a managers' insurance fund or to a provident fund, to a further education fund, to convalescence pay, refund of expenses incurred in fulfilling his duties, to annual vacation and to sick leave in accordance with his terms of engagement. The Chairman of the Board is also entitled to a company car and to its maintenance expenses. The Chairman of the Board has the right to apply for changes in his monthly remuneration and/or in the related benefits, subject to parallel changes and adjustments, and subject to any law and to the maximum fixed amount of remuneration (as defined by the terms of engagement).

The terms of engagement of the Chairman of the Board define a graduate non-competition period with full remuneration (not including related benefits except for the company car and its maintenance expenses). The non-competition period would be one month in case his office is terminated during the first year of engagement, two months in case his office is terminated during the second year of engagement, and three months in case his office is terminated during the third year of engagement or thereafter. The Board of Directors has the right to waive the period of non-competition or a part thereof, and in such a case, the Chairman of the Board would not be entitled to the remuneration as stated above.

If the expense regarding the payroll cost of the Chairman of the Board, which is borne by the Bank in the tax year, exceeds the "maximum amount payable" as defined in Section 4 of the Compensation Act, a part of the compensation payable to the Chairman of the Board would not be deductible tax wise, as stated in Section 4 of the Compensation Act.

CORPORATE GOVERNANCE, ADDITIONAL INFORMATION AND APPENDICES TO THE ANNUAL REPORT

LIST OF TABLES

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Mr. Ron Levkovich, Chairman of the Board

Mr. Zadik Bino

Mrs. Pnina Biterman-Cohen

Mr. Gil Bino

Mr. Dov Goldfriend

Dr. Ronen Harel

Mr. Zvi Levron

Mr. Jacob Sitt

Mr. Ilan (Eilon) Aish

Mrs. Orna Dov

For further details on the members of the Board of Directors of the Bank, see Article 26 “Board of Directors of the Bank” in the Bank’s periodic report for 2022, which is published on the Securities Authority’s magna site.

REPORTING ON DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE

Pursuant to the Companies Law, 1999, at least one of the External directors must have accounting and financial expertise, and the others should be professionally competent or have accounting and financial expertise (as these terms are defined in the law). In addition, under Bank of Israel directives, at least five of all the members of the Board of Directors and at least two members of the Audit Committee must have accounting and financial expertise.

In practice, all directors currently serving on the Board of Directors (including two directors from the public) have accounting and financial expertise.

Set out below are details of the present members of the Bank's Board of Directors having accounting and financial expertise, with mention of their membership of the Audit Committee and a description of their professional background and/or education in accordance with which they are to be regarded as having accounting and financial expertise:

1. **Mr. Ron Levkovich**, Chairman of the Board, Bachelor of Economics (expanded) from the Tel Aviv University and graduate of the Advanced Management Program of the Harvard University Business School. Owner and director of family investment companies. Serves as director of Nimbio Company Ltd. and as member of the Advisory Committee of Rambam Hospital Medatech. Founded and served as joint CEO of Epsilon Investment House.
2. **Mr. Zadik Bino**, served as Chairman of the Board of Directors and as CEO of the First International Bank of Israel Ltd. and as CEO of Bank Leumi Le-Israel B.M. Served as Chairman of the Board of Directors of FIBI Holdings Ltd., parent company of the First International Bank of Israel Ltd. Serves as Director of: BINO Holdings Ltd.; GHD Investments (2006) Ltd.; Bigro Commodities Ltd.; Binohon Ltd; DADA Management Ltd.
3. **Mrs. Pnina Bitternam-Cohen**, (External Director under the Companies Act, 1999 and External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks, Chairperson of the Audit Committee). Attorney-at-Law, Bachelor of Law from the Tel Aviv University, advanced legal study courses at Tel Aviv and Bar Ilan Universities, including analysis of financial statements and risk management. Served for nine years in the past as External Director at the First International Bank of Israel Ltd. Served as Legal Counsel of the Polar group of companies, including accompanying all the business activity of the Group. Conduct of negotiations with banks and complex negotiations regarding the acquisition and sale of companies, the raising of capital in Israel and abroad and submission of tenders for projects in the communication field. Served for thirty years as director on boards of public and private companies engaged in industry, real estate, communication, infrastructure as well as finance, trading and services.
4. **Mr. Gil Bino**. Attorney-at-Law, Bachelor of Law and Business Administration Master of Business Administration (EMBA). Serves as Chairman of FIBI Holdings Ltd., the parent company of First International Bank Israel Ltd.; CEO of Bino Holdings Ltd.; of GHD Investments (2006) Ltd.; Director at Alden Hotel AG.
5. **Mr. Dov Goldfriend**, (External Director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks; member of the Audit Committee); CPA, Bachelor of Economic and Accounting and Master of Business Management from the Tel Aviv University. Serves as CEO at A.T.R.N. Management and Consulting Ltd. Served as Director of the Mediterranean Coastal Cliffs Preservation Company Ltd., a Government company, and as Chairman of the Audit Committee of Emanuel Association - Guardianship for Autism Patients Founded by Allot (AR). Served as External Director at: Rishon LeZion Economic Company Ltd.; Rishon Initiative - The Municipal Company Ltd.; Leumi Card Ltd.; Scorpio Real Estate Ltd. Served as the CEO of Poaley Agudat Israel Bank Ltd, as VP and Chief Accounting Officer and member of Management at The First International Bank of Israel Ltd., and as Director of companies in the First International Bank Group.
6. **Mrs. Orna Dov,** (External Director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks), Bachelor degree in Accounting and Economics and Master Degree in Information Systems from the Tel Aviv University. Serves as Chairperson of the Board of Directors of Vicarius Ltd. Member of advisory committees to the Boards of Directors of CyberWall Ltd. and Bigbi A. Ltd. Served as External Director of Radview Software Ltd. Served as consultant to Matrix Ltd. and Open Legacy Ltd. Founded and served as CEO of Intelinks Ltd. Served also as GM, CFRM at Bottomline Technologies (EPAY) Ltd.

7. **Dr. Ronen Harel** (External Director under the Companies Act, 1999 and External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks and member of the Audit Committee). Bachelor of Economics and Master of Business Administration specializing in finance from Tel-Aviv university. Ph.D. in Management Science specializing in entrepreneurship and innovation from Ben-Gurion University in the Negev. Graduate of the International Management Program of NYU Business School. Senior Lecturer on business management in the innovation, entrepreneurship, strategy, business development and finance fields, at: Peres Academic Center (2018 to date), Tel Aviv University (2019 to 2022), Academic College Tel Aviv-Yaffo (2012-2018), Ben Gurion University in the Negev (2016-2018). Serves as External Director of: Ch. Mer Industries Ltd. (Chairman of the Audit, Balance Sheet and Compensation Committee); Kerur Holdings Ltd. (Chairman of the Audit, Balance Sheet and Compensation Committee); One Software Technologies Ltd. (Chairman of the Audit, Balance Sheet and Compensation Committee). Served as Director in the companies: Tikkun Olam- Cannabit Pharmaceuticals Ltd., Atreyu Capital Markets Ltd. (Chairman of the Balance Sheet Committee), P.C.B. Technologies Ltd., UBank Ltd., E.G.R.E. Ltd. and as Chairman of the Board of Directors of Trans-Clal Trading Ltd.
8. **Mr. Zvi Levron,** (member of the Audit Committee), Attorney-at-Law, Law graduate of the Tel Aviv University, LLM Degree in International Business Law from Queen Mary College at London University (specialized in private and international business taxation, international trade and international finance). Serves as Director of Zvi Levron & Co. Ltd. Served as Director of Guy Yarden Company Ltd. Has experience in legal assistance to commercial transactions, project financing and corporate finance.
9. **Mr. Jacob Sitt**, Attorney-at-Law, Bachelor of Law, Bachelor of Economics from Tel Aviv University, and Master of Business Administration (Financing) from the Inter Disciplinary Center, Herzliya. Serves as CEO of FIBI Holdings Ltd. and as Director of companies. Served as CEO and Director at: FIBI Investment House Ltd. Served as Joint CEO at Leumi & Co. Underwriters Ltd. and as Investment Manager and VP, Business Development, at Barbino Ltd.
10. **Mr. Ilan (Eilon) Aish**, (External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks; member of the Audit Committee); CPA, Bachelor of Economics and Accounting from the University of Tel Aviv. Serves as Director and Joint CEO of Harvest Capital Markets Ltd. Served as External Director in ISSTA Lines Student Travel Company in Israel Ltd. Until March 2, 2022, served as External Director (under Proper Conduct of Banking Business Directive) at Israel Discount Bank Ltd. and Chairman of the Risk Management Committee, Chairman of the Audit Committee and Chairman of the Corporate Governance Committee of the bank. Was a consulting partner at Goldstein, Sabu, Tevet CPA's, and a partner at Volkan, Wineberg, Aish CPA's and Igal Breitman CPA's.

The Bank's Board of Directors held in 2022, 31 meetings in plenary session and 55 meetings of its various Board Committees.

MEMBERS OF SENIOR MANAGEMENT

Mrs. Smadar Barber-Tsadik	President and Chief Executive Officer
Mr. Yoram Sirkis	Executive Vice President, Head of Client Asset Management Division
Mr. Nachman Nitzan	Executive Vice President, Head of Chief Accountant Division
Mr. Benzi Adiri	Executive Vice President, Head of Corporate Division
Mrs. Yael Ronen	Executive Vice President, Chief Internal Auditor
Mrs. Ella Golan	Executive Vice President, Head of Resources Division and financial management
Mr. Eli Cohen	Executive Vice President, CRO and Head of the Risk Management Division
Mr. Ron Grissaro	Executive Vice President, Head of Banking Division
Mr. Yinnon Shveka	Executive Vice President, Head of PAGI department
Mrs. Haviva Dahan	Executive Vice President, Head of Legal Consulting department
Mr. Ofir Kadosh	CEO of MATAF Computing and finance operation Ltd.

Corporate Secretary	Mr. Aviad Biller, Adv.
The Bank's independent auditors	KPMG Somekh Chaikin, Certified Public Accountants (ISR) (in office since 1972)

* For further details on the senior manager members, see Article 26A “Senior Office Holders at the Bank” in the Bank’s periodic report for 2022, which is published on the Securities Authority’s magna site.

THE GROUP'S INTERNAL AUDITING

Details of the Chief Internal Auditor

Mrs. Yael Ronen CPA serves as Chief Internal Auditor of the Bank since May 2011, and serves as Internal Auditor at all the banking subsidiaries in the First International Group. At the non-banking subsidiaries, the managers from the Internal Audit department were appointed as the internal auditors.

The Chief Internal Auditor has a bachelors in economics and psychology and in the accounting track for graduates at the University of Tel Aviv and masters degree in law in the academic track of the College of Management. In her previous positions, she managed the Sarbanes Oxley Department of Clal Insurance Ltd., and was manager of the Information Systems Risk Management Department at the KPMG Somekh Chaikin accountants office, with an emphasis on auditing and consulting in the area of banking.

The Chief Internal Auditor is an employee of the Bank and conforms to the conditions prescribed in Paragraph 3(a) of the Internal Auditing Law. The Internal Auditor and her employees serve in auditing functions alone, without any conflict of interests, and act in accordance with the Internal Auditor’s Regulations as stated in Paragraph 146 (b) of the Companies Law, the provisions of Paragraph 8 of the Internal Auditing Law, 1992 and Proper Conduct of Banking Business Regulation 307.

Manner of appointment and organizational subordination

The appointment of the Internal Auditor was approved by the Audit Committee on March 15, 2011 and by the Board of Directors on March 22, 2011.

The Internal Auditor's superior in the organization is the Chairman of the Board of Directors.

The Internal Audit work program

The Internal Auditing Department operates on the basis of a 4-5 years multi-year work program and an annual work program derived from it, which covers all of the Bank's activities and the entities operating within it, including the subsidiaries in Israel. The work program is based on a systematic risk assessment methodology and takes into account inter alia the assessment of risks expressed in the ICAAP document and the Internal Audit's assessments concerning the risk centers in the Bank's activity, including focal points of operational, embezzlement and fraud risks, and the findings arising from previous audits which the Internal Audit and external entities had conducted. The work program includes the allocation of inputs and the frequency at which audits are to be conducted in accordance with the level of risk of the audited entity/activity.

The work program is submitted for discussion by the Audit Committee which recommends its approval to the Board of Directors, and which is then approved by the Board.

Under the work program, the Chief Internal Auditor is permitted at her discretion to deviate from the program and to conduct unplanned audits. Material changes from the approved work program are submitted for discussion by the Audit Committee.

Positions

As stated, the Chief Internal Auditor is an employee of the Bank and is employed in a full-time position. The number of employees in the Internal Auditing Department of the Bank and its subsidiaries averaged 41 posts in 2022.

The number of employee posts is derived from the multi-year work program and includes outsourcing.

Conduct of the audit

Audit work is carried out on the basis of legal requirements, including the Internal Audit Law, the Banking Order, the Banking Regulations, the directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation 307 and the directives of other supervisory bodies.

Proper Conduct of Banking Business Regulation 307 governs the matter of the internal audit function at the banking corporation in accordance with the Basel working framework, with the aim of enhancing corporate governance principles.

The regulation covers inter alia the positions involved in the function, the extent of its activity, its working methods and the reports which it is required to send.

The Internal Audit operates in accordance with accepted professional standards determined by the international Institute of Internal Auditors.

Access to information

As required in Paragraph 9 of the Internal Auditing Law, the Internal Auditor is given full access to all the information which she requires, including constant and unimpeded access to the information systems of the Bank, including financial data. It should be noted that such full access is given when auditing the subsidiaries.

Reporting by the Chief Internal Auditor

The Internal Audit reports, including periodic reports, are submitted in writing.

The Internal Audit reports are submitted to the members of Management in charge of the units/matters audited, and in accordance with criteria specified in the Board of Directors' procedures, to the CEO of the Bank and to the Chairman of the Board. Significant audit reports, as relevant, are discussed at meetings with the CEO of the Bank.

In consultation with the Chief Internal Auditor, the Chairman of the Audit Committee determines which audit reports will be presented in their entirety for discussion at the Audit Committee. In addition, a monthly report compiled by the Internal Audit, which contains executive summaries of all the audit reports that were circulated in the past month, is submitted to the members of the Audit Committee, who are entitled to peruse any audit report which they see fit and ask the Chairman to present it in its entirety at the Audit Committee. Also significant audit reports are presented for discussion in the Board of Directors and/or the Risk Management Committee after consultation with the Chairman of the Board or the committee, according to the relevance.

The Internal Audit's periodic reports include a monthly report, a half-yearly report and an annual report.

The Internal Audit's half-yearly report and annual report include reporting concerning the performance of the work program versus the plan, a list of all the audit reports that were circulated in the period reported, a report on the findings from the monitoring of remedial action with respect to deficiencies arising from the audit reports, a summary of the material findings emerging from the audit reports, and the annual report appraising the effectiveness of the Internal Control. The Internal Audit's report for 2021 was discussed by the Bank's Audit Committee on April 28, 2022. The Internal Audit's report for the first half of 2022 was discussed by the Bank's Audit Committee on September 20, 2022. The Internal Audit's report for 2022 will be discussed during March 2023.

The Board of Directors are sent copies of the Audit Committee's minutes, in order to notify those Board members who are not members of the Audit Committee of the content of the Committee's discussions.

In cases of particularly serious findings, an immediate report is sent to the CEO, to the Chairman of the Audit Committee and to the Chairman of the Board of Directors.

The Board of Directors’ appraisal of the Chief Internal Auditor’s activity

In the opinion of the Board of Directors and the Audit Committee, the scale, the nature and the continuity of the Internal Auditor’s activity and work program are reasonable in the circumstances of the matter, and are adequate for the purpose of achieving the objectives of the internal audit function at the Bank.

Remuneration

Set out below are details of the payments to the Chief Internal Auditor and the components of these payments (in NIS thousand), in accordance with the details required in the table of the Bank's highest salary recipients:

	Year	
	2022	**2021**
Salary and bonuses	**1,472**	1,420
Severance pay, provident fund, advanced study fund, vacation, national insurance and additional benefits	**379**	403
Value of benefits	**72**	70
Total salary and included expenses	**1,923**	1,893

The compensation of the Chief Internal Auditor is commensurate with her position. In the estimation of the Board of Directors, nothing in the compensation of the Chief Internal Auditor can be regarded as leading to bias in her professional discretion.

DISCLOSURE OF THE PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

The office-holders engaged in the preparation of the financial statements of the Bank are the CEO of the Bank, Mrs. Smadar Barber Zadik, and the Chief Accountant, Nachman Nitzan CPA.

In accordance with the SOX 302 directives, a Disclosure Committee chaired by the CEO and with the participation of the Head of the Chief Accountant's Division, heads of divisions and department managers subordinate to the CEO and/or the Board of Directors, the Chief Disclosure Coordinator and the Bank's External Auditors meet every quarter. The Disclosure Committee discusses material matters that could have an effect on the data in the financial statements, and deficiencies that were discovered in the financial reporting control system, and monitors the rectification of those deficiencies.

Before the financial statements are presented to the plenum of the Board of Directors, initial discussions concerning them are held at the Bank's Management, at the Disclosure Committee and with the participation of the CEO, the Head of the Chief Accountant's Division and the Bank's External Auditor. Discussed at this forum are material issues that may arise in the preparation of the financial statements and the accounting policy that needs to be applied.

The Board of Directors has authorized the Audit Committee to act as the Committee for the Review of the Financial Statements, in accordance with the Companies Regulations (Terms and Conditions Concerning the Process of Approval of the Financial Statements), 2010. The Audit Committee is headed by an external director and most of its members are qualified as independent directors and all its members have declared themselves capable of perusing and comprehending financial statements.

In accordance with a resolution of the Board of Directors, at least two directors with accounting and financial expertise must serve on the Board of Directors and on the Audit Committee. Currently, all members of the Board of Directors and all members of the Audit Committee have accounting and financial expertise. The Audit Committee consists of five directors:

1. **Mrs. Pnina Bitterman-Cohen**, Chairperson of the Audit Committee. Serves as External Director under the Companies Act, 1999 (and as External Director under Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks), and with qualification as an Independent Director. Has accounting and financial expertise and the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law), in view of the following: served for over thirty years as a senior officer of a public company, the securities of which are traded on the Tel Aviv Stock Exchange; served for over thirty years as director of companies engaged in diverse fields of activity; had participated in study courses on subjects of financial statements analysis and risk management.

2. **Mr. Dov Goldfriend** a member of the Audit Committee. Serves as External Director in accordance with Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks and is qualified as an Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, Bachelor of Economic and Accounting and Master of Business Management from the University of Tel Aviv. Served as the CEO of Poaley Agudat Israel Bank Ltd.; as VP and Chief Accounting Officer and member of Management at The First International Bank of Israel Ltd. and as Director of companies.
3. **Dr. Ronen Harel**, a member of the Audit Committee. Serves as External Director in accordance with Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks and is qualified as an Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: Bachelor of Economics, Master of Business Administration specializing in finance from Tel-Aviv university. Ph.D. in Management Sciences specializing in entrepreneurship and innovation from Ben-Gurion University in the Negev. Served as External Director of Ubank Ltd. Serves as an External Director of: Ch. Mer Industries Ltd.; Kerur Holdings Ltd.; One Software Technologies Ltd.
4. **Mr. Ilan (Eilon) Aish**, a member of the Audit Committee, serves as External Director in accordance with Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks and is qualified as an Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, Bachelor of Economic and Accounting from the University of Tel Aviv. Served as External Director of Issta Lines, the Travel Company of Students in Israel Ltd. Served as External Director (under Proper Conduct of Banking Business Directive) of Israel Discount Bank Ltd. Serves as Director and joint CEO at Harvest Capital Markets Ltd.
5. **Mr. Zvi Levron**, a member of the Audit Committee, does not serve as External Director and is not classified as Independent Director. Has accounting and financial expertise. Serves as Director having the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this), in view of the following: serves as director of companies.

As in each quarter, the Board of Directors' Audit Committee at its meeting on February 28, 2023, discussed allowances for credit losses, in order to approve these allowances and the provisions for impairment in the nostro portfolio before the financial statements were submitted for approval by the Board of Directors. The discussion was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

In addition, at its meeting on March 14, 2023, the Audit Committee discussed the findings of the Disclosure Committee in accordance with the provisions of SOX, and with the participation of the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

The Board of Directors' Audit Committee held a detailed preliminary discussion of the draft financial statements. The discussion was held on March 14, 2023, and was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank. Discussed at this meeting were material issues, to the extent encountered, in the preparation of the financial statements and the accounting policy that was applied. Following the Audit Committee's discussion, the financial statements, amended as requested by the Audit Committee, were sent to the Board of Directors with the Committee's recommendation that the members of the Board approve the financial statements, since it had compiled recommendations to the Board in all the matters required in the Securities Regulations and directives of the Supervisor of Banks.

The Audit Committee sends its recommendations regarding the approval of the financial statements to the Board of Directors within a reasonable time period prior to their discussion at the Board of Directors, and reports any deficiency or problem discovered in the course of its review, if any.

Within the framework of the process of approval of the financial statements by the Audit Committee and the Board of Directors, drafts of the financial statements and of the Board of Directors Report are submitted for perusal and comments by the Directors several days before the date of the meeting that is set for the discussion of the financial statements.
The Board of Directors is the ultimate control authority at the Bank.
The Board of Directors, at its meeting on March 21, 2023, discussed the approval of the financial statements of the Bank, with the participation of the members of Bank management, including the CEO, the Chief Accountant and the Bank's External Auditor. The aforementioned recommendations by the Audit Committee were submitted to the members of the Board of Directors on March 14, 2023, in due time before the plenary discussion. At the discussion by the plenum of the Board of Directors, the CEO presented the financial results of the Bank and a comparison with previous periods. At this stage, a discussion was held during which the Bank's office-holders answered the directors' questions on matters relating to the financial results and to the financial statements. At the end of the discussion, the Board of Directors resolved to adopt the aforementioned recommendations of the Audit Committee, to approve the Bank's financial statements and to authorize for the Chairman of the Board of Directors, the President and CEO and the Chief Accounting Officer to sign the financial statements.

AUDITORS' REMUNERATION (1)(2)(3)

(NIS thousands)

	Consolidated		The Bank	
	2022	**2021**	**2022**	**2021**
For audit work(4):				
Auditors of the Bank	**7,558**	7,493	**6,268**	6,203
Another auditor	**-**	-	**-**	-
Total	**7,558**	7,493	**6,268**	6,203
For additional Auditing related services:				
Auditors of the Bank	**-**	-	**-**	-
For tax services:				
Auditors of the Bank	**938**	872	**898**	872
Other services:				
Auditors of the Bank	**2,783**	3,431	**2,565**	3,077
Total	**3,721**	4,303	**3,463**	3,949
Total auditors' remuneration	**11,279**	11,796	**9,731**	10,152

(1) Report of the Directors to the Annual Meeting of shareholders on the remuneration of the auditors for audit work and for additional services, according to sections 165 and 167 of the Companies Law - 1999.

(2) The auditors' remuneration includes payments to partnership and companies under their control as well as payment under the Value Added Tax Law.

(3) Includes remuneration paid and accrued.

(4) Includes audit of annual financial statements, review of interim statements, audit of internal control over financial reporting.

The Bank's auditors KPMG Somekh Chaikin serve as the external auditors of the Bank since 1972.

REMUNERATION OF SENIOR OFFICERS

(NIS thousands)

						2022
Name	**Title**	**Position**	**Holdings in the Bank's equity**	**Salary**	**Bonus**	**benefits(2)**
Ron Levkovich	Chairman of the Board of Directors	**100%**	**0.02%**	**2,278**	**-**	**108**
Smadar Barber-Tsadik	Chief Executive Officer	**100%**	**-**	**2,998**	**-**	**110**
Benzi Adiri	Executive Vice President, Head of the Corporate division	**100%**	**-**	**1,358**	**480**	**76**
Ron Grisaro	Executive Vice President, Head of the Banking division	**100%**	**-**	**1,358**	**446**	**78**
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	**100%**	**-**	**1,478**	**482**	**74**
Ella Golan	Executive Vice President, Head of Resources and financial management Division	**100%**	**-**	**1,412**	**459**	**75**

						2021
Name	**Title**	**Position**	**Holdings in the Bank's equity**	**Salary**	**Bonus**	**benefits(2)**
Ron Levkovich	Chairman of the Board of Directors (7)	100%	0.02%	2,193	-	104
Smadar Barber-Tsadik	Chief Executive Officer	100%	-	2,822	-	105
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	100%	-	1,422	457	73
Ella Golan	Executive Vice President, Head of Resources and financial management Division	100%	-	1,357	417	74
Ron Grisaro	Executive Vice President, Head of the Banking division	100%	-	1,306	430	72
Benzi Adiri	Executive Vice President, Head of the Corporate division	100%	-	1,245	405	73

(1) Not including VAT on salaries.
(2) Value of benefits (including: car benefit, cellular phone, health insurance, etc.).
(3) Including loss (gain) in respect of updated actuarial calculations in respect of the liability of the Bank, for severance pay and other post-retirement benefits.
(4) Excluding deposits and provisions for provident funds and severance compensation (including loss of work ability) in accordance with the law, which are not included in the definition of "compensation" for the purpose of computing the amount of engagement in Section 2(a) of the Compensation of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of an expense in respect of exceptional compensation), 2016".
(5) Loans and mortgages granted to senior executives at conditions similar to those that were granted to all Bank employees, the amounts of which were determined on the basis of uniform criteria.
(6) Actuarial loss (gain) in respect of changes in the discounting interest rate of the liabilities of the Bank for severance pay and post-retirement benefits.

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Actuarial gain in respect of change in the discounting interest rate (6)	Total payroll and related expenses (1)(3)	Total payroll and related expenses according to remuneration law (1)(4)	Loans granted under ordinary market terms (5)
494	**-**	**-**	**2,880**	**2,542**	**-**
526	**-**	**(14)**	**3,620**	**3,146**	**-**
361	**18**	**-**	**2,293**	**2,096**	**2,468**
337	**-**	**-**	**2,219**	**2,010**	**1,197**
694	**-**	**(638)**	**2,090**	**2,264**	**-**
615	**-**	**(573)**	**1,988**	**2,077**	**-**

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Actuarial loss in respect of change in the discounting interest rate (6)	Total payroll and related expenses (1)(3)	Total payroll and related expenses according to remuneration law (1)(4)	Loans granted under ordinary market terms (5)
560	2	-	2,859	2,531	-
498	-	5	3,430	2,983	-
318	136	186	2,592	2,149	-
416	103	212	2,579	2,093	74
384	22	-	2,214	2,018	746
355	15	3	2,096	1,909	2,527

Notes:

A. The bank accounts management conditions for senior executives, including all activity in those accounts, are similar to other customers conditions with similar characteristics.

B. For details regarding the Compensation policy for senior officers as approved by the general meeting of shareholders dated February 26, 2020, and is applied in respect of the annual bonus for 2022, see immediate report of the Bank dated January 21, 2020 (reference no. 2020-02-008841). For details regarding the Compensation policy for senior officers, as approved by the general meeting of shareholders dated March 1, 2023, and will apply for the bonus years 2023-2025, see immediate report of the Bank dated January 24, 2023 (reference no. 2023-01-009553).

Mr. Ron Levkovich - was appointed Chairman of the Board of Directors of the Bank as from September 15, 2020.
For details of the engagement agreement with Mr. Levkovich - see Note 33F(2) to the financial statements.

Mrs. Smadar Barber-Tsadik - has been employed by the Bank since January 9, 2005 and has served as CEO of the Bank since March 19, 2007.
For description of the engagement agreement with Mrs. Smadar Berber-Tsadik- see Note 33F(1) to the financial statements.

Mr. Yoram Sirkis - has been employed at the Bank since February 9, 1993, under a collective agreement and since March 20, 2007 under a personal agreement, for a specified period until Mars 20, 2010. Following that date, the agreement will continue for an unspecified period in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of six month and in accordance with the terms of the employment agreement. On termination of his employment Mr. Sirkis is eligible to severance compensation at a level of 100% of his last monthly salary, for the period of his employment by the Bank until January 1, 2019, while for the period following that date, he will be eligible for severance compensation according to section 14 to the Severance Compensation Act. The redemption value of the severance compensation amounts, contributed by the Bank to a pension fund in his favor, will be deducted from these amounts.

The non-competition period is six month from the date of termination of his employment at the Bank of which three months with payment.
Mr. Sirkis's salary is linked to the rise in the consumer price index.
For details of determination of the annual award for 2022, among others, to Mr. Sirkis, see immediate report of the Bank dated January 21, 2020, mentioned above.

Mr. **Ron Grissaro** - has been engaged by MATAF since June 4, 2017, according to a personal agreement for a specified period of three years. Thereafter, the agreement remains in effect for an additional unspecified period, in which each of the parties thereto are entitled to terminate the agreement, for whatever reason at any time, giving a prior notice in writing of three months in accordance with the terms of the employment agreement.
As from January 1, 2021, Mr. Grissaro is employed by the Bank, with rights continuity with his employment at MATAF.
Upon termination of his employment, Mr. Grissaro is entitled to severance compensation in accordance with Section 14 of the Severance Compensation Act.
The non-competition period is six months from the date of termination of his employment at MATAF or at the Bank, of which three months with payment.
Mr. Grissaro's salary if linked to the rise in the consumer price index.
For details of determination of the annual award for 2022, among others, to Mr. Grissaro, see immediate report of the Bank dated January 21, 2020, mentioned above.

Mrs. Ella Golan - employed at the Bank since January 16, 1994 under collective agreement, and since December 1, 2013, under a personal agreement for an unspecified period, in which each of the parties thereto are entitled to terminate the agreement, for whatever reason at any time, giving a prior notice in writing of six months in accordance with the terms of the employment agreement.
On termination of her employment Mrs. Golan is eligible to an ordinary severance payment at a level of 100% of her last monthly salary, for the period of her employment in the Bank up to January 1, 2018, while for the period after that date, Mrs. Golan will be entitled to severance compensation in accordance with Section 14 of the Severance Compensation Act. The redemption value of the severance compensation amounts contributed by the Bank to a pension fund in her favor, will be deducted from these amounts.
The non-competition period is six months from the date of termination of her employment at the Bank of which three months are with payment.
Mrs. Golan's salary is linked to the rise in the consumer price index.
For details of determination of the annual award for 2022, among others, to Mrs. Golan, see immediate report of the Bank dated January, 21, 2020, mentioned above.

Mr. Benzi Adiri - has been employed at the Bank since January 2, 2012, under a personal employment agreement for a specified period of two years, following which, the agreement continues in effect for an additional unspecified period, in which each of the parties thereto is entitled to terminate the agreement, at any time and for whatever reason, giving a prior notice in writing of three months, in accordance with the terms of the employment agreement.
Upon termination of his employment, Mr. Adiri is eligible to severance compensation in accordance with Section 14 of the Severance Compensation Act.
A non-competition period of six months applies from date of termination of his employment, of which three months are with payment.
The salary of Mr. Adiri is linked to the rise in the Consumer Price Index.
For details of determination of the annual award for 2022, among others, to Mr. Adiri, see immediate report of the Bank dated January, 21, 2020, mentioned above.

TRANSACTIONS WITH INTERESTED PARTIES

a. Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970 - Reports on transactions with controlling shareholders.

No changes have taken place during the reported period in the rules regarding the reporting of transactions with controlling shareholders, as detailed in the Chapter "Corporate Governance, transactions with interested parties" in the financial statements for the year 2018.

b. Determination of criteria for the purpose of the Bank's transactions with interested parties

No changes have taken place during the reported period in the criteria, as detailed in the Chapter "Corporate Governance, transactions with interested parties" in the financial statements for the year 2018.

c. Transactions with controlling owners or in which a controlling owner has an interest, approved in the reported year in accordance with Section 270(4) and/or Section 267A of the Companies Act (including framework transactions still valid at the reporting date and transactions approved in accordance with the Companies Regulations (Relief regarding Transactions with Interested Parties), 2000 (hereinafter: "the Relief Regulations"):

1. On December 20, 2018, and towards the termination of a framework transaction of June 2014, and after obtaining the approvals of the Audit Committee, the Compensation Committee and the Board of Directors, the general meeting of shareholders of the Bank approved the following resolutions concerning insurance for directors and officers:
   - Approval in advance to engagement of the Bank in a “directors and officers liability” insurance policy, for the Bank itself and for the Group companies, for a period of up to six years, namely until December 31, 2024, including by way of extension of policies approved in the past and/or by means of the purchasing of new policies, and which would apply to officers that had served and/or that would serve at the Bank and/or at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.

     The said resolution comprises a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations (hereinafter - "the framework decision") allowing the renewal of the insurance policy also with respect to Directors and Officers who are controlling shareholders of the Bank and/or their kin, as well as with respect to the President and CEO, also in accordance with provisions 1(3), 1B(5) and 1A(1) of the Relief Regulations. The mechanism for the renewal of the insurance coverage had also been approved within the framework of the new compensation policy, approved by the general meeting of shareholders of the Bank held on February 26, 2020, the details of which were reported in an immediate report dated January 21, 2020 (Ref. No. 008841-01-2020) (hereinafter - "the compensation policy"), so that it allows the renewal of the insurance policy also with respect to directors and officers, who hold a controlling interest in the Bank and/or their next of kin, in accordance with Regulation 1B(1) of the Relief Regulations.
   - Approval of the manner in which the said insurance fees are to be allocated among FIBI Holdings Ltd., the Bank and Group's companies which elect to join the insurance policy as from January 1, 2019 for six years. The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations.
   - The framework for the terms of the policy as well as the terms for the renewal of the policy from time to time, within the existing framework transaction, the compensation policy and the manner of allocation of the insurance fees between FIBI Holdings Ltd., the Bank and the Bank's subsidiaries, were described in an immediate report of the Bank regarding the approval of the framework transaction existing since November 6, 2018 (Ref. No. 104838-01-2018), and the contents of this report is presented herein by way of reference.

On July 15, 2020, the general meeting of shareholders of the Bank, following approvals by the Audit Committee, the Compensation Committee and the Board of Directors, approved updates of the existing framework transaction, which entered into effect as from July 1, 2020, regarding everything relating to the limits of the liability, the scope of the insurance fees, the terms for renewal of the policy within the framework transaction, and the amounts of insurance deductibles (to be paid by the Group and not by the officers), all other terms of the framework transaction remaining unchanged (also during the period of the existing framework transaction, which shall end on December 31, 2024). For details regarding the updates relating to the existing framework transaction, see the immediate report by the Bank dated June 9, 2020 (Ref. No. 01-051931-2020), which is presented herein by way of reference.

The above resolution comprises an update of the framework transaction, as well as a resolution under Section 267A of the Companies Act, as an amendment of Section 8.2 of the compensation policy, for the period in which the updated compensation policy remains in effect, which would allow the renewal of the insurance policy also with respect to Directors and Officers who are controlling shareholders of the Bank and/or their next kin, and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest, as well as with respect to the President and CEO, this in accordance with provisions 1(3), 1B(5), 1A(1) and 1B(1) of the Relief Regulations.

Allocation of the insurance fees among the Group companies shall be made in accordance with criteria determined and approved within the framework of the framework transaction, including with respect to FIBI Holdings, and no changes apply to them.

The General Meeting of Shareholders of the Bank held on June 10, 2021, following approvals by the Board of Directors of the Bank and by the Compensation Committee and the Audit Committee, approved the updating of the framework transaction and of the compensation policy in respect of officers of the Bank, as follows:

- The maximum amount of the insurance coverage remains unchanged, with the addition of reasonable legal defense expenses to the liability limit.
- The maximum amounts that had been determined with respect to the annual insurance fees and to insurance deductibles shall be deleted.

For details regarding the changes in the framework transaction and in the compensation policy, see the Immediate Report by the Bank dated May 4, 2021 (Ref No. 077970-01-2021), presented herein by way of reference.

In continuation of the above, and following approvals by the Compensation Committee and by the Audit Committee, in accordance with Regulations 1(3), 1A1, 1(b)(5) and 1B1 of the Relief Regulations, the Board of Directors of the Bank approved on June 29, 2021, the renewal of the directors and officers liability insurance policy in respect of the Bank and of the Bank Group, including subsidiaries of the Bank and the controlling shareholder of the Bank, FIBI Holdings Ltd., for an additional insurance period beginning on July 1, 2021 and ending on June 30, 2022. For details regarding the insurance policy, see the Immediate Report by the Bank dated June 29, 2021 (Ref No. 109029-01-2021) as well as supplementary report dated September 14, 2021 (Ref No. 146625-01-2021) presented herein by way of reference.

On June 28, 2022, following approvals by the Audit Committee and the Compensation Committee, in accordance with Regulations 1(3), 1(a)(1), 1(b)(5) and1(b)(1) of the Relief Regulations, the Board of Directors of the Bank approved the renewal of the officers and directors liability insurance policy for and additional period, in respect of the Bank and the Bank Group, including subsidiary companies of the Bank as well as the controlling shareholder FIBI Holdings Ltd. and including directors from among the controlling shareholders, for an additional insurance period, beginning on July 1, 2022 and ending on June 30, 2023. For details as to the terms of the policy, see the immediate report by the Bank dated June 28, 2022 (Ref. No. 2022-01-080383) the contents of which is presented herein by way of reference.

2. On September 15, 2020, after obtaining the approval of the Compensation Committee and in accordance with Regulation 1b. of the Companies Regulations (Reliefs regarding transactions with Interested Parties), 2000, the Board of Directors of the Bank ratified the continuation of payment of remuneration to Directors from among the controlling shareholders of the Bank, as paid to them prior to the said ratification, for a period of three additional years, all as detailed in the immediate report of the Bank dated September 15, 2020 (Ref. No. 092554-01-2020) included herein by way of reference. The said remuneration agrees with the compensation policy for officers of the Bank, as approved by

the general meeting of shareholders of the Bank held on February 26, 2020, the details of which, regarding compensation to all directors (excluding the Chairman of the Board) are stated in Section 7 of the Appendix "A" to the immediate report of the Bank dated January 21, 2020 (Ref No. 008841-01-2020) presented herein by way of reference. On May 4, 2021, the Board of Directors of the Bank, following approval by the Compensation Committee, approved an update to the annual remuneration and to the remuneration for participation in meetings, in respect of external Directors and other Directors, officiating or who may officiate from time to time, and who are expert Directors, as the term "expert external director" is defined in the Companies Regulations (Rules regarding remuneration and reimbursement of expenses of an external director), 2000, (hereinafter - "Remuneration Regulations" and "Expert Director"), excluding the Chairman of the Board, in respect of whom separate remuneration for fulfillment of position had been determined, so that following the above update, the remuneration would amount to the "maximum amount for an expert external director" as stated in the Fourth Addendum to the Remuneration Regulations (annual and per meeting), in accordance with the ranking of the Bank (the said amount being rounded off to the nearest amount being a multiplication of five NIS and linked to the CPI in accordance with the Remuneration Regulations). VAT in accordance with the law would be added to the said amounts. With respect to resolutions passed with no meeting being convened and resolutions passed online, the remuneration for participation in meetings would continue to be paid at the rate stated in the Remuneration Regulations. Furthermore, Directors would be entitled to the reimbursement of expenses, as stated in Regulation 6 of the Remuneration Regulations.

The amount of remuneration, as stated above, shall be paid to an expert Director starting with the date of extension of office of an external Director of the Bank under the Companies Act, in accordance with the Remuneration Regulations. On June 10, 2021 the General Meeting of Shareholders of the Bank approved the extension of office of an external director in accordance with the Companies Act.

As of date of this Report, all officiating Directors are expert Directors, within the meaning of the term in the Remuneration Regulations.

Notwithstanding the above mentioned, at the request of Mr. Tsadik Bino and Mr. Gill Bino, who are controlling shareholders of the Bank, the decision regarding the updating of the remuneration shall not apply to them, and they will continue to be compensated in accordance to the previous amount of compensation that had been paid to them, this in accordance with decisions taken in their respect in September 2020, by the Compensation Committee and by the Board of Directors, as detailed above.

Nothing stated above derogates prior resolutions that had been passed by the Bank with respect to Directors' remuneration, including with respect to remuneration payable to non-expert Directors, who may officiate at the Bank from time to time.

In March 2022, the Board of Directors of the Bank, in accordance with the Companies Regulations (Rules regarding remuneration and expenses payable to an external Director) (Provisional instruction), 2022 (hereinafter – "the provisional instruction"), approved criteria according to which, the participation of a Director in a meeting held in the period of restriction (as defined in the provisional instruction), through use of communication means, as stated in Section 101 of the Companies Act, shall be classified as participation in a regular meeting entitling compensation in full in respect of participation therein. The said criteria apply to any Director of the Bank entitled to compensation for participation determined in accordance with the Companies Regulations (Rules regarding remuneration and expenses payable to an external Director), 2000 (including Directors from among the controlling shareholders of the Bank).

3. Commitment for the indemnification of directors and officers of the Bank (including renewal of the indemnification of directors from among the controlling shareholders of the Bank dated July 15, 2020, as described in Note 25C to the financial statements).

d. Additional information on transactions with interested parties

1. For details of the balances and condensed results of transactions with interested parties and related parties, see also Note 33 to the financial statements.
2. The Group, with the participation of FIBI Holdings, jointly purchases insurance policies, including liability insurance for directors and officers, including also directors who are controlling owners and their relatives.
3. Granting exemption from responsibility to acting directors and officers and to those who would act at the Bank from time to time, in accordance with the approval of the general meeting of shareholders of 2004 and as detailed in Note 25C to the financial statements. It is noted, that the Bank has not tabled for reconfirmation by the general meeting of shareholders, the exemption letters granted in 2004 to directors who are controlling shareholders.
4. In addition, the Bank and its subsidiaries conduct from time-to-time transactions with interested parties in the Bank in the ordinary course of business and at market terms.
5. Set out below is a collation of data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions (NIS thousand):

	Credit	Investment in bonds	Fair value of derivatives	Total balance-sheet monetary indebtedness	Unutilized credit balance	Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto	Guarantees granted to Bank by controlling owner in favor of third party	Indebtedness of controlling owner in respect of transactions in derivatives	Total
									NIS thousand
Indebtedness of others(1)									
December 31, 2022	**151**	**-**	**-**	**151**	**509**	**-**	**-**	**-**	**660**
December 31, 2021	161	-	-	161	520	-	-	-	681

	December 31, 2022		December 31, 2021	
	Balance on balance-sheet date	Highest balance during period(3)	Balance on balance-sheet date	Highest balance during period(3)
		NIS thousand		NIS thousand
Deposits of others(1)	**2,238**	**7,285**	3,744	16,045

(1) Relatives of controlling shareholders of the Bank, according to the definition of a "relative" in the Banking Act (licensing)-1981.
(2) On the basis of balances at the end of each month.

DETAILS OF THE OWNERS OF CONTROL IN THE BANK

FIBI Holdings Ltd. (hereinafter - "FIBI"), a public company the shares of which are traded on the Stock Exchange, holds 48.34% of the issued share capital and voting rights in the Bank (a rate comprising the core of control according to the control permit issued by Bank of Israel). The holders of control of FIBI are Mr. Zadik Bino and his children - Gill Bino, Hadar Bino-Shmueli and Daphna Bino-Or (hereinafter - "the Bino family"), Messrs. Michael and Helen Abeles, and Messrs. Barry Lieberman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman (each of the groups by way of corporations under their full control: Binohon Ltd., Instanz No.2 Ltd. and Dolphin Energies Ltd.). For details regarding the different arrangements existing among the control holders with respect to their holdings in FIBI, and indirectly in the Bank, and with respect to the terms of the control permit dated September 19, 2003, that had been granted to the control holders by Bank of Israel, as amended from time to time, see "Details regarding the owners of control in the Bank" in the Chapter "Corporate Governance" in the financial statements for 2019.

In accordance with the reports of FIBI, as of date of publication of the financial statements, the holdings of the controlling shareholders in FIBI (in equity and voting) are as follows: Binohon Ltd. - 28.54%, Instanz No. 2 Ltd. - 11.68%, and Dolphin Energies Ltd. - 11.38% (the holdings of all the controlling shareholders of FIBI comprise its core of control, in accordance with the control permit issued by Bank of Israel).

INVOLVEMENT AND CONTRIBUTION TO THE COMMUNITY

The Bank attributes great importance to the promotion of social values and contribution to the community alongside its business activity. Therefore, the Bank acts within the framework of the flag plan "Believing-in-you", the aim of which is to establish long-term involvement and cooperation in society, inter alia, by means of voluntary activity of its employees and cooperation with factors, organizations and associations assisting the community. Employees of the Bank take part in such projects and contribute their time, experience and skills, in aid of different populations and sectors.

Defense forces

"Warm Home" - the Bank is active in favor of the defense forces, with a focus on providing response to the needs of solitary soldiers serving in fighting units of the IDF. In conjunction with the "Together in favor of the Soldier", the Bank has put at the disposal of soldiers 30 apartments all over the country, equipped at a high level, serving soldiers in leading a comfortable and embracing daily routine, providing the feeling of a warm home. Each such apartment has an adopting branch of the Bank, employees of which escort the soldiers using the apartment and maintain current relations with them, being attentive and providing response to their needs in their daily life.

"Leading to Success" - The Bank attributes great importance to the issue of reduction of gaps in the population and providing opportunities for the integration of disadvantaged soldiers and veterans in the community. The Bank has formed a scholarship plan to finance academic studies at the Open University, intended for such students, with a view of providing them with a key for economic independence, allowing a change of life and increasing their earning ability, thus leading them to optimal integration in society.

"Adopt a warrior" – for several years now, the Bank continues to adopt a combat regiment, within the framework of the project "Adopt a warrior", and in the past year it adopted an additional combat unit. As part of the adoption, the Bank participated in events of the units, supporting the well-being of the soldiers all through their service period.

"Special in uniform" – During the year, the Bank joined the "Special in Uniform" program, engaged in integrating handicapped youth in military framework, enabling them to join-up and serve "just like all others". The program comprises a jumping board for their integration in the work place and in Israeli society in all areas of activity. Within the framework of the program, the Bank adopts two units, each of them having an adopting branch of the Bank, which accompanies the unit during the period of service.

"Now it's me" – The Bank, jointly with the IDF Disabled Organization, has contributed to the formation of a designated personal training and growth program for IDF female casualties/disabled, interested in a process of development and self-fulfillment, struggling with the injury and participating in an embracing female community. Within the framework of the program, female employees of the Bank will integrate in the mentoring process offered to the service women, with a view of strengthening them and granting strengthening support.

In addition, the Bank is a party to the promotion of culture among IDF service personnel in participation with the Lior Foundation. The Bank has made a contribution which enables the meeting of military service personnel with authors all over the country, and concurrently contributes to "Sunday Culture Days" for the welfare of the servicemen and women. The Bank also contributed to a program for the training of demobilized service personnel as professional guides and for work at the ANU Museum of the Jewish People.

Cooperations for the advancement of the Ultra-Orthodox sector.

"Leadership in Hi-Tech" – program engaged in the advancement of diversifying processes and inclusion of applications intended for the optimal integration of Ultra-Orthodox women in qualitative and advancing employment in the technology world. The program operates nationwide in Ultra- Orthodox communities and supports training courses for the integration in the new labor world, including preparation for development in the technological world, delivery of presentations, delivery of messages, exercise practices and constant improvement of the English language, and more. Employees of the Bank take part in the classification, training and mentoring processes.

"Career 21" – a program engaged in granting tools and practical qualifications for the training of Ultra- Orthodox young persons for the 21st century employment world. The program is expected to involve some 200 participants, who will take part in an online course focusing on the establishment of many skills relating, inter alia, to initiative and responsibility, inter-cultural abilities, creative thinking, introduction into the changing labor world, and more.

Employees of the Bank participate in different voluntary activities, such as cooking meals for lone service personnel and involvement in the learning of the financial field intended for youth in risk situation. At the same time, the Bank cooperates with Bank of Israel, the Union of Banks and the banking system, regarding financial education to other diversified populations.

Additional donations

During the year, the Bank contributed of an advanced mobile imaging machine (X-Ray machine) to the field hospital established in the Ukraine by the Sheba Medical Center. The machine was available for treatment of the young and old during the war. In addition, the Bank donated to the Kaplan Medical Center a life-saving medical instrument for premature babies.

The total amount of involvement and contribution to the community of the Bank Group amounted in 2022 to NIS 5 million.

ADDITIONAL INFORMATION

PRINCIPAL HOLDING STRUCTURE CHART

BANK MASSAD LTD	UBANK TRUST COMPANY LTD	FIRST INTERNATIONAL ISSUES LTD	THE INTERNATIONAL UNIQUE INVESTMENT MANAGEMENT LTD	ISRAEL CREDIT CARDS LTD.
(E. 51%, V. 51%)	(E. 100%, V. 100%)	(E. 100%, V. 100%)	(E. 100%, V. 100%)	(E. 28.2%, V. 21%)

V - Bank's Voting Right
E - Bank's Share in Equity

FIXED ASSETS

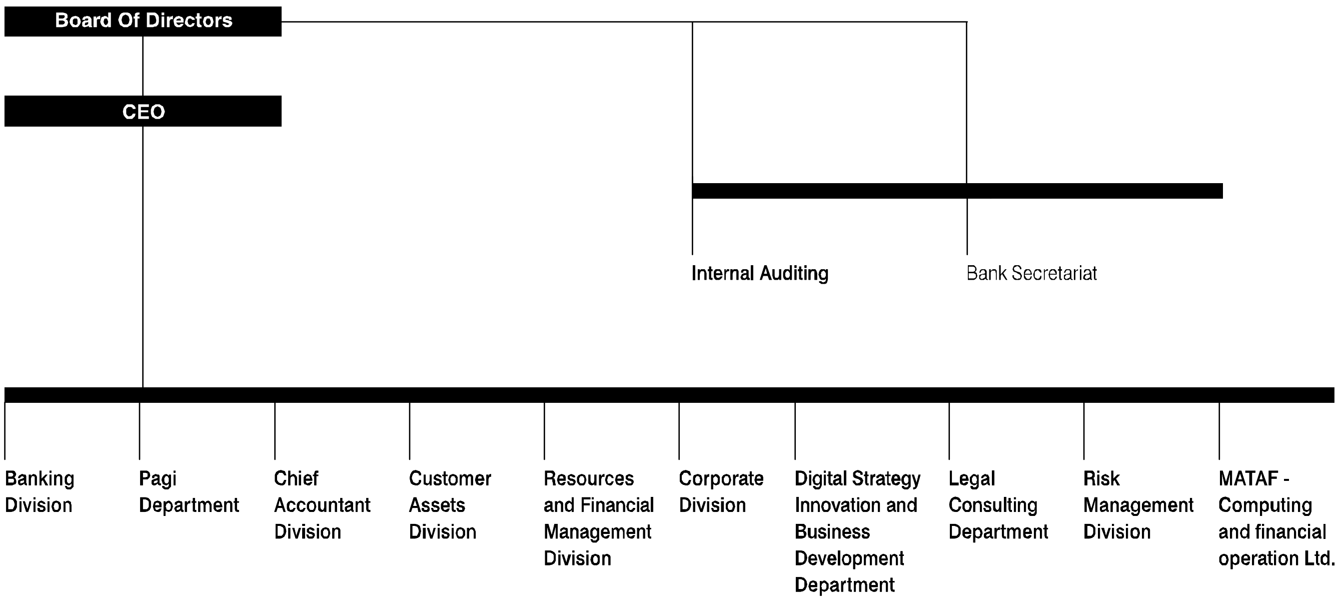
	As of December 31			
	2022			2021
	Cost	Accumulated depreciation	Balance	Balance
				NIS million
Buildings and land (including installations and improvements to rented properties)	**1,408**	**591**	**817**	841
Equipment (including computers, furniture and vehicles)	**624**	**539**	**85**	90
Total	**2,032**	**1,130**	**902**	931

As of December 31, 2022, the Bank Group owned or leased a total area of 54 thousand square meters in 43 properties (31.12.2021 - 55 thousand square meters in 45 properties). In addition, the Group rents in Israel a total area of 36 thousand square meters in 107 properties throughout the country (December 31, 2021 - 37 thousand square meters in 114 properties). The rental agreements for rented premises are for varying periods and in most cases an option to extend the rental periods is provided. The majority of rental contracts are linked to the consumer price index.

See Note 16 to the financial statements for details on additional aspects of the investment in premises and equipment.

HUMAN CAPITAL

THE ORGANIZATIONAL STRUCTURE OF THE BANK



As of December 31, 2022, the Bank Group operated via 130 branches and sub-branches (109 branches and sub-branches at the Bank and 21 branches and sub-branches in Massad). The Group examines on a current basis the developments in the profitability and business activity of the branches, relative to the target populations for which they were meant to serve, the targets set in the working plans of the banks in the Group and the ability to utilize to the fullness the potential in the geographical area in which each branch operates. In this framework the compatibility of the branches distribution to the business environment is examined on a current basis, as well as to the changes in the areas comprising potential business development in the target population of each bank in the Group.

HUMAN RESOURCES STRATEGY

The Bank promotes a culture of professional development, excellence and an up-to-date professional qualification to face future challenges by means of training and qualification programs that provide knowledge and skills in a range of operating fields reflecting aspects of regulation, technology work procedures and more.

The Bank performed a comprehensive examination of the future labor world. In consequence thereof, training and development programs have been formulated in order to prepare the human capital to the challenges of the future in areas relating to employee skills, management tracks, adaptation of diagnosis processes and formulation of training programs.

In the learning processes, different expression and emphasis are given to central principles: initiating service, the banker as a financial expert, digital transformation, as well as a "skills basket" of the future labor market. Among the skills are: data management, interpersonal skills, subject presentation, innovation, change leadership, etc.

Management study courses are held for different employee grades, the aim of which is to intensify the management and leadership expertise of manager while preparing for the future challenges.

PERSONNEL

The following are details of manpower in the Bank Group in terms of positions(1)

	2022		2021	
	Annual average	Balance at end of the year	Annual average	Balance at end of year
The Bank	**3,384**	**3,360**	3,421	3,351
Subsidiaries	**292**	**286**	294	294
Total at the Bank Group	**3,676**	**3,646**	3,715	3,645

(1) Number of positions include translation of overtime to position, with addition of external manpower which are not bank employees, that provide work services.

The following are details of the annual average (in terms of positions) of the Group's manpower according to supervisory segments of activity:

The positions presented according to segments of activity include position of employees directly employed in the segment and positions of head-office employees at different levels, which the cost of their employment was allocated to the segment. The computation of the said positions is based on the model of cost allocation which the Bank uses, as detailed in note 28 to the financial statements.

	Year 2022	Year 2021
Large business segment	**229**	218
Medium business segment	**152**	145
Small and minute business segment	**943**	952
Household segment	**1,990**	2,034
Private banking segment	**92**	87
Institutional entities	**198**	183
Financial management segment	**72**	96
Total	**3,676**	3,715

Details of cost and salary of employee position at the Bank (in NIS thousands)

	Year 2022	Year 2021
Cost of employee position (excluding bonus)	**417**	405
Cost of employee position (including bonus)	**462**	436
Salary of employee position (excluding bonus)	**278**	270
Salary of employee position (including bonus)	**314**	295

Nature of the human resources

The average seniority of the Bank's employees amounted to 18.6 years similar to 2021. The average age of the Bank's employees was 47.8 similar to 2021.

Employee mobility

In order to reduce as far as possible the risk and dependency on different office-holders and as part of employees' personal and professional development, the Bank insists on employee mobility within the Bank and on rotation in office of employees. For this purpose, the Bank regularly moves employees in sensitive functions reaching the end of the period in office determined by procedures of the Bank and in accordance with a multi-year rotation plan, according to the type of position and/or personnel requirements and subject to the constraints imposed by the labor agreements at the Bank.

Human resource quality and managerial quality

The enhancement of human resources continued in 2022 via the creation of advanced processes at the different stages of the employee's life at the organization: recruitment, classification and absorption of new employees, the conferral of tenure and new appointments, management development etc.

Management cadres and management development plans

The Bank's management cadre was built up on the basis of the managerial profile and critical core proficiencies. This cadre is used as a means for monitoring employees with managerial potential, for personal planning and development purposes and in order to map qualitative and quantitative gaps. As a result, different tracks for management development have been established during recent years, in order to train managerial reserves for various terms.
The proportion of graduate employees at the Bank amounts to 73%.

Code of Ethics

The Bank has institutionalized the process of developing tools for assimilation of the code and for promoting a culture of ethical behavior and social accountability. For this purpose, the Bank established ethical institutions at the bank, including an Ethics Committee headed by a member of management, which is responsible for assimilation of the code and for providing guidance and training on the basis of the values in the Code of Ethics, among other things, using a Code of Ethics Portal was instituted at the Bank. This portal contains interactive tools for the use of all employees.
During 2022, the Bank refreshed Ethical situations with the Bank's employees, and accordingly to update the dilemma book. Furthermore, in each month, theme letters to situations that were identified and tested were published to all employees, in the framework of which, ethical dilemmas were included with the expected reaction.

Intra-organizational communication

Intra-organizational communication serves as a strategic managerial tool for supporting the Bank's objectives and activities, for assisting in all key processes and events, and for fostering dialog and a sense of connection between employees and the organization. The Bank has placed an emphasis on effective management of intra-organizational communication for the purpose of promoting transparency, increasing the level of employee satisfaction and strengthening the connection between all of the Bank's employees.

Professional instruction and training

In 2022, an emphasis was placed on the development of a climate of study and excellence among the Bank's employees, and innovative information tools and processes were employed for mapping knowledge gaps and for the development of advanced professional instruction activities in the Bank Group. An emphasis was also placed on instruction in the Bank's core areas of activity, and on managers' development before entering into and during the function.
The instruction plan refers to all the employees' needs- instruction in banking knowledge, according to areas of profession, managerial instruction according to rank and instruction in areas which are suitable platform for the extraction of employees' ability. In addition, great emphasis is placed on instruction of regulation subjects, as an additional layer of professionalism and excellence, specifically and as part of the current professional contents, in order to provide fully to the requirement of the regulation. In addition, the instruction in respect of the digital subjects, was broadened (internet website, cellular application and new products and services) in order to offer customers full support and awareness of all the Bank services.
The number of days of instruction at the Bank Group totaled 24,572 in 2022, compare with 18,281 days of instruction in 2021.

LABOR RELATIONS

The labor relations at the Bank are principally based on collective labor agreements and complementing arrangements, carried out with the New General Federation of Labor, the Union of Clerks and the Union of Managers and Signatories, as the case may be, and do not apply in case of employees engaged under a personal employment agreement.

Collective labor agreements are in effect at the Bank, which link to a certain extent, the employment terms of the clerks, managers and signatories to those agreed upon by the Management of Bank Leumi, the Union of Bank Leumi Employees.

Otzar Hachayal employees continue to be represented by the Union of Otzar Hachayal Employees and are entitled to their rights in accordance to agreements that had been in effect at that bank.

Existing also at the Bank Group are employees' unions that represent employees of Massad Bank and of MATAF.

COMPENSATION POLICY IN A BANKING CORPORATION

The compensation policy for officers of the Bank

The General Meeting of Shareholders of the Bank approved on March 1, 2023, a compensation policy for officers of the Bank, in accordance with Section 267A of the Companies Act and with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive") and within consideration to the Compensation of Officers of Financial Corporation Act (Special approval and the non-deductibility tax wise of exceptional compensation), 2016 (hereinafter - "the Compensation Act").

For additional details, see the immediate report by the Bank dated January 24, 2023 (ref. No. 2023-01-009553). The content of this report is included herewith by way of reference. The new compensation policy for officers of the Bank contains provisions considering the Directive, as amended from time to time, and the Compensation Act.

Employee compensation policy

In accordance with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive"), in June 2020, the Bank approved, after the passing of three years from the previous approval, an updated compensation policy for all Bank employees, including central employees, as well as principles for the compensation policy of the Group, the compensation policy for officers, as approved on March 1, 2023 by the General meeting of Shareholders, forming a part thereof. The compensation policy for employees determines rules for the compensation of employees and of central employees, including in accordance with the Directive as amended from time to time, as well as instructions regarding the allocation of responsibility among the relevant functions at the Bank engaged in the compensation mechanism. Moreover, within the framework of the compensation policy of the Group principles were determined regarding the fixed compensation and the variable compensation for officers of the controlled companies, considering also the principles of the compensation policy to the office holders in the Bank.

For further disclosure in the matter of compensation, see the document "Disclosure according to Pillar III of Basel and additional information regarding risk", available for perusal on the Internet.

MATERIAL AGREEMENTS

Apart from the agreements in the ordinary course of business, the agreements detailed below, which were signed in 2022 and/or were signed previously and are still binding on the Bank, are likely to be considered as material agreements not in the ordinary course of business:

1. Collective Labor Agreements:

   There are two employees' organizations at the Bank - the clerks' organization, and the managers and authorized signatories' organization.

   The following is a summary of the principal agreements signed with the two employees' organizations:

   - A collective agreement of November 19, 1975 between the Bank's management and the National Organization of the Association of the Managers and Authorized Signatories of the Bank regarding the linkage of salary conditions and related work conditions as practiced with respect to authorized signatories at Bank Leumi Le-Israel Ltd. On November 12, 2000 a special collective agreement was signed. The agreement stipulated employees' obligations and rights, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute).

     Apart from these agreements, specific agreements are signed from time to time between the Bank, the said organization and the General Federation of Labor with respect to specific subjects.
   - A collective agreement of October 25, 1974 between the Bank's management and the national organization of the Bank's employees concerning the receipt of related payments such as are received by the employees of Bank Leumi le-Israel Ltd. There is also a special collective agreement from that year which determines the obligations and rights of employees, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute). In addition to these agreements, specific agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.

   The Bank's employees, which formerly were Otzar Hachayal employees continue to be represented by the Union of Otzar Hachayal Employees until such time when a new collective labor agreement, regulating their integration into the labor agreements in effect at the Bank, is signed.

   Existing also at the Bank Group are employee unions that represent employees of Massad Bank and of MATAF.
2. Indemnification and exemption for officers of the Bank and its subsidiaries - see Note 25C to the financial statements.
3. Deeds of trust and guarantees relating to the issue of bonds, subordinated debt notes and subordinated capital notes.

   First International Issues Company Ltd., a wholly owned subsidiary of the Bank, concluded deeds of trust in connection with the issue of bonds, subordinated debt notes and subordinated capital notes of different series issued by First International Issues, in accordance with prospectuses in public or private placements.

   Agreements were signed between First International Issues and the Bank, according to which, concerning issues whose proceeds are placed in deposits or subordinated deposits with the Bank at terms identical to the terms of the debt notes, part of which with the addition of a commission, the Bank is committed to bear all payments due to the holders of the debt notes, including the repayment of principal and payments of interest.

   The total revaluated value of the debt notes that were issued under the said deeds of trust, whose proceeds were deposited at the Bank, and which are held by the public, amounted to NIS 4,702 million on December 31, 2022 (including linkage increments, accrued interest, issue expenses, discounting and premium).
4. Arrangements concerning matters connected with the capital market - a notification which the Bank sent on August 1, 1984 to the Supervisor of Banks at the time, concerning a number of restrictions which the Bank took upon itself in connection with its activity in the capital market.
5. Pledge of the Bank's assets to clearing houses in Israel and abroad and to foreign banks and brokers - see Note 26 to the financial statements.
6. Pledge to the benefit of the Bank of Israel - see Note 26 to the financial statements.
7. Mutual guarantee for the MAOF Risk Fund and a risk fund that was established by the stock exchange - see Note 25.D and 25.E to the financial statements.
8. Agreements for joint issuance of debit cards with the credit cards companies- see note 25.L to the financial statements.

LEGISLATION AND REGULATORY INITIATIVES

Following are summarized details of the provisions of laws and regulatory initiatives, which were published and/or entered into effect during the reported period, and which materially affect or might affect the operations of the Bank. The Bank is studying the overall significance of the said provisions and initiatives regarding the income and expenses of the Bank, as well as the long-term business and operating implications.

A part of the initiatives may have an adverse effect on the income of the Bank and/or its expenses. This effect cannot be quantified at this stage, due to dependence of different factors, including customer behavior, competitors' activity and additional regulatory changes, regarding legislation not yet finalized, it is also not possible to assess whether it would be in fact be enacted and what would be its final content.

Nothing in the contents of this Chapter derogates from that stated in other Chapters and Sections of this Report, where there exists additional reference to provisions of the law and to regulatory initiatives as described below or to other.

A PERIOD OF EMERGENCY - THE CORONAVIRUS CRISIS

On background of the outbreak of the Coronavirus, Bank of Israel and additional Regulators have published, since March 2020, mitigating instructions and special arrangements with the aim of allowing banking corporations the required business flexibility, providing assistance to households and businesses in the evolving exceptional circumstances.

The effective period of most of the said mitigating instructions and arrangements has expired, a small number of which have been permanently approved, and another small part of which are still in effect, mostly within the framework of Proper Conduct of Banking Business Directive No. 250 - amendments of Proper Conduct of Banking Business Directives aimed at confronting the Corona crisis (Provisional instruction), the effect of which expired on December 31, 2021 (hereinafter - "Provisional Instruction"), except for, as stated, certain mitigating instructions the effect of which had been extended. Following are the principal of which that might still be relevant to the Bank:

- Reduction in the leverage ratio applying to banking corporations by one-half of a percent.
  In accordance with an update of May 15, 2022, the effect of Proper Conduct of Banking Business Directive No. 250, in respect of the leverage ratio, was extended until June 30, 2024, provided that the leverage ratio shall not be lower than the ratio at December 31, 2023, or lower than the leverage ratio required from the banking corporation prior to the Provisional Instruction, the lower of the two.
- The maximum amount of the credit facilities allocated to the construction and real estate sector (including indebtedness in respect of national infrastructure) has been increased from 24% to 26% of total indebtedness of the public, and the said maximum rate, net of indebtedness in respect of national infrastructure, has been increased from 20% to 22% of total indebtedness of the public. This mitigation remains in effect until the end of twenty-four months from December 31, 2025, provided that during the said 24 months the rate of indebtedness should not exceed the rate existing on December 31, 2025, or the rate of the segmental limitation existing prior to the mitigation, whichever is higher.

BANKING

The draft Banking Order (Customer service) (Supervision over basic track, extended track, extended plus track services, direct channel transaction and bank teller transaction), 2022, and draft amendment of Banking Rules (Customer service) (Commissions), 2008.

In accordance with the above drafts, published on December 5, 2022, the principal proposed changes are as follows:

- Updating of the method of charging current account commissions and requiring banks to compute for individual customers and for small businesses the cheapest monthly payment method best for them, according to the number of current account transactions (both direct channel and teller assisted transactions) made by them in a particular month, the payment to be charged to them would be in accordance therewith.
- Enlarging the group of small businesses to which the cheaper pricelist would apply, from a corporation with an up to NIS 5 million business turnover to a corporation with a business turnover of up to NIS 10 million, and changing the

default option by attachment of a small business to the cheaper pricelist, so that all these corporations would be considered as small businesses, with the bank being permitted to request an annual report in cases where it has reasonable ground to assume that the business turnover of the corporation exceeds NIS 10 million.

- Update of the extended plus track designed for customers conducting extensive banking activity, who are interested in a track that provides them with added value, exceeding the basic services offered by a direct channel transaction and by a teller assisted transaction. This track would be enlarged so that the number of a teller assisted and direct transactions contained therein would not be limited. (At the present time, this track is not being offered by the Bank).

The proposed effective date of the Order is six months since date of publication.

Banking Order (Customer service) (Supervision over transaction services provided by a bank clerk, direct channel transaction, extended channel and extended plus channel), 2022.

Within the framework of the Order, published on September 1, 2022, Bank of Israel declared transaction services provided by a bank clerk, direct channel transaction, extended commission channel and extended commission plus channel, as services under supervision. Accordingly, raising the price of commissions charged in their respect requires submission of a reasoned request and approval by Bank of Israel.

Proper Conduct of Banking Business Directive No. 420 - Delivery of notices through communication channels

In accordance with an update of the Directive, published on June 6, 2021, intended to improve service to customers and reduce costs, it has been, inter alia, determined that a banking corporation has to choose the most suitable communication channel for delivering particular notices to customers who had joined the service of receiving notices by means of communication channels, in accordance with the level of materiality of the information and the speed required for its delivery. For this purpose, a banking corporation has to examine the needs of the customer in accordance with circumstances and take into consideration aspects of privacy protection, and among other things, examine whether a need exists to enable the customer to receive the information immediately and in an accessible manner, and whether the customer needs to monitor, safekeep and print the notice. Moreover, a closed list of notices has been determined, which a bank is required to deliver to the customer both by means of a communication channel, allowing the customer the monitoring, safekeeping and printing of the notice, and by means of a communication channel enabling the immediate delivery of the notice in an accessible manner, such as SMS notices. Following an amendment dated June 13, 2022, the update entered into effect on January 1, 2023.

Proper Conduct of Banking Business Directive No. 314A - Management of debt arrangements and of collection procedures regarding material troubled debts

The Directive was published on September 30, 2021, with a view of regulating the manner of treatment, reporting and authority relating to troubled debts, the amount of which exceeds NIS 50 million, or which are in lower amounts, matching quantitative or qualitative parameters defined in the matter by the banking corporation. The Directive includes corporate governance instructions in the matter, including the duty to define a policy, goals and an organizational structure that would include a "designated function". The Directive also states the measures that have to be adopted prior to the debt becoming a troubled debt, starting with the underwriting stage and continuing with the early recognition processes and risk reducing measures, before passing on the debt for handling by the designated function. The Directive took effect on April 1, 2022.

Proper Conduct of Banking Business Directive No. 250A - Transition from the LIBOR interest

The Directive was published on September 30, 2021, stating principles for the implementation of the transition to interest bases serving as an alternative to the LIBOR interest, the quotation which for most currencies, was discontinued at the beginning of 2022 (the LIBOR interest in respect of the US dollar would continue to be quoted for certain periods until June 2023). In accordance with the Directive, the Bank is required, inter alia, to discontinue, as early as possible and no later than

December 31, 2021, the entry into new LIBOR interest-based agreements, to choose alternative interest bases, taking into account the recommendations of the relevant international bodies, and document the reasons for the choice, as well as inform its customers with respect to the discontinuation of the LIBOR interest quotations and its implications. The Bank had completed the transition to the alternative interest bases on January 1, 2022.

Proper Conduct of Banking Business Directive No. 362 – cloud computing

On background of development and upgrading of the cloud computing technology, an amendment to the Directive was published on June 13, 2022. Among other things, the amendment defined "cloud computing" and "material cloud computing", removed the prohibition on usage of cloud computing services for core operations and/or core systems, stated that cloud computing is a private matter of outsourcing and, accordingly, added singular duties for the board of directors and senior management with respect to the use of cloud computing services, which are not included in Proper Conduct of Banking Business Directive No. 359A, including the duty of the board of directors to approve a policy and a multi-annual program for the use of cloud computing services, and the duty to define a function subject to the head of the information technology division, who would have an in-depth knowledge of the risks involved in the use of cloud computing services and of the technological services provided by all suppliers of cloud computing services, with whom a banking corporation is engaged. Further new requirements were added within the framework of risk assessment by a banking corporation, such as the duty to perform a risk survey regarding a material cloud computing, additional requirements and instructions regarding engagement with suppliers of material cloud computing services, regarding confrontation with cyber events in cloud computing services, including performance of cyber exercises, and with respect to the management of business continuity. The Directive took effect on January 1, 2023, however, a banking corporation was allowed to apply the Directive in its entirety, before the effective date. Also stated are transitional instructions regarding agreements with suppliers of cloud computing services that had been signed prior to the date of publication of the Directive, as well as regarding such agreements signed after date of publication of the Directive and up to the said effective date.

CAPITAL MARKET

Proper Conduct of Banking Business Directive No. 460 - presentation of data regarding transactions in a securities deposit

The Directive, which was published on December 23, 2021, and updated on June 13, 2022, determines a uniform format for the presentation to the customer of data regarding his securities deposit with a banking corporation, with a view of improving the ability of the customer to take an educated decision as to the investment track best for him in relation to other investment options.

The Directive includes, inter alia, details of the types of information and data, which the banking corporation has to present, including the rate of return, and where the customer obtains from the bank investment advisory services, it is required to present, inter alia, also the measure of exposure of his securities deposit. The Directive states also the dates and format in which the information would be presented.

The Directive took effect on January 1, 2023.

OPEN BANKING

Proper Conduct of Banking Business Directive No. 368 - application in Israel of the open banking Standard

The Directive was published on February, 24 2020, in continuation to the provisions of the Increase in Competition and Decrease in Centralization in the Banking Market in Israel Act (Legislation amendments), 2017, and with a view of promoting the open banking Reform, giving customers the option of allowing third parties access to their financial information in a digital and secured way.

With respect to information regarding the current account of the customer, the Directive took effect on April 18, 2021. Graded and later effective dates were determined in respect of information regarding charge cards and nonrecurring payment orders in NIS; information regarding savings accounts, deposits and credit. No date was fixed with respect to information regarding securities.

The Directive applies to banks and credit card companies and includes provisions in matters of implementation of open banking (both as regards the transfer of information and in respect of payment orders), with respect to corporate governance, the manner in which the consent of the customer for delivery of information or for instructing payment, is obtained, rules regarding the level of service, principles for the management of data protection risk and cyber defense, duties applying to banks and to credit card companies choosing to operate also as a consumer of information or as a payments initiator, the manner of treating approaches by customers and the reports required by the Supervisor.

Following the enactment of the Financial Information Service Act, 2021, (hereinafter - "the Act"), Bank of Israel published on February 23, 2022, an amendment to the Directive, with the aim of modifying it to the provisions of the Act, including expansion of the classes of providers of financial information services, who would be entitled to obtain access to the financial information of a customer, with his consent. Also, on January 17, 2022, Bank of Israel published a letter updating part of the effective dates that had been fixed by the Directive, with a view of modifying them to the provisions of the Act. On May 15, 2022, Bank of Israel published an additional amendment to the Directive, which includes instructions regarding the consideration received from another entity in respect of the granting of financial information services to the customer. The instructions are intended to avoid concern in respect of conflict of interests, and require, inter alia, determination of rules ensuring that the consideration arrangement with that other party would not affect the quality of service provided to the customer.

On January 23, 2023, Bank of Israel published an Amendment to the Directive, which includes, inter alia, amendments allowing the delivery of information regarding securities held in the customer's securities deposit, as part of the implementation of the next stage in open banking.

Financial Information Service Act, 2021

The Act, which was published on November 18, 2021, creates comprehensive and uniform regulation of the financial information service activity. In accordance with the Act, the providing of this service requires a license or approval by the Regulator relevant to the provider of the service (the Supervisor of Banks in the case of a bank, settling agent and an auxiliary corporation). It is further stated that the provider of the service may not engage in cost comparison services or in brokerage, as defined by law, with respect to financial products and services, which it (or parties related to it) provides to its customers. The Act includes provisions regarding the activity and duties of the entities providing the financial information services and the "sources of information" (which include, in accordance with the Act, banks, settlement agents, auxiliary corporations, institutional bodies [provident funds and insurance companies], the holder of a license for the provision of deposit and credit services, the holder of a license to provide credit and the holder of a license to operate a credit brokerage system), including in the matter of privacy protection, the use of information, its protection and obtaining consent for making use thereof, collection of consideration, avoidance of conflict of interests and consumer instructions. The Act states gradual implementation dates for sources of information and different types of information, the earliest of which was on June 14, 2022, with respect to information regarding payment accounts and charge cards, originating in a bank, an auxiliary corporation or a settlement agent.

CORPORATE GOVERNANCE

Proper Conduct of Banking Business Directive No. 301 - the Board of Directors

In accordance with an amendment to the Directive published on January 18, 2022, the Board of Directors of the Bank has to determine, within six months from date of publication of the amendment, a policy regarding the ratio for an appropriate representation of the genders on the Board, including the time limit and milestones to achieve this goal.

Achievement of the determined goal is to be reached within three years from date of approval of the policy. As required, the Board of Directors has approved such a policy.

Proper Conduct of Banking Business Directive No. 301 – Board of Directors and Directive No. 301A – Compensation policy of a banking corporation

Within the framework of an amendment to these Directives, published on April 10, 2022, it is stated, inter alia, that the Board of Directors has to define the duties and authority of the Chairman of the Board in accordance with those conferred upon him by law, and in a manner that would not belittle or replace the duties of the Board and also should not reduce the duties and responsibilities of the other Directors. The required differentiation between the Board of Directors and the Chairman of the Board on the one part, and the Management of the Bank on the other part, is clarified and emphasized, and it is also stated that the Board of Directors has to define the scope of time that the Chairman of the Board has to devote in order to fulfill his duties. The amendment also points out the existing principle, according to which the compensation payable to the Chairman of the Board shall be determined in relation to the manner of compensation of the other members of the Board. It is noted, that additional rules regarding the compensation of the Chairman of the Board, apply to banking corporations having no control core. The amendment takes effect on date of publication. It is clarified, that as a Bank having a control core, the above amendment has no effect upon the engagement terms of the Chairman of the Board of the Bank.

MONEY LAUNDERING PROHIBITION

Bank of Israel letter in the matter of risks involved in engagement with entities declared in international sanctions lists and in national sanctions lists of foreign countries.

In accordance with a letter dated June 8, 2022, exploitation of the banking system for the purpose of circumventing the sanction regime imposed by foreign countries and by international organizations, exposes banking corporations to significant risks, including compliance risks, money laundering and the finance of terror risks and more. Accordingly, banking corporations are required to adopt policies and procedures with respect to the manner by which use should be made of international sanctions lists and national sanctions lists of foreign countries, as well as with respect to engagement or entering into transactions with entities declared in the above stated lists. It is further stated in the letter that refusal to approve a transaction or to engage in an agreement, or the discontinuation of engagement due to the application of the above policy, shall be considered reasonable refusal to provide service with respect to the Banking Act (Customer service), 1981.

MISCELLANEOUS MATTERS

Privacy protection

In January 2022, the Privacy Protection Authority issued a document containing recommendations regarding the appointment of a privacy protection officer, relevant to organizations collecting and processing personal data. The documents provide a set of tools and guidelines regarding everything connected to the areas of responsibility of the privacy protection officer in the organization, states the fields of knowledge and qualification required from whoever officiates in this office, and refers to his position in the organization. The Bank has appointed a privacy protection officer. For additional details, see the Risk Review Chapter.

In January 2022, the Government tabled a proposed Amendment Bill to the Privacy Protection Act (Amendment No. 14), 2022. The Amendment Bill contains, inter alia, a significant reduction in the duty to register data bases, modifications of the definitions contained in the Act to technological and social developments, and expansion of the supervision and enforcement powers of the Privacy Protection Authority, authorizing it to impose monetary penalties in amounts of between NIS 1,000 and up to NIS 3.2 million (depending on the circumstances of processing the information and on the severity of the violation).

In July 2022, the Privacy Protection Authority published a statement of position document in the matter of the duties of notification in relation to the assembly and use of personal data. The document presents the interpretation of the Authority regarding Section 11 of the Privacy Protection Act, while focusing on the duty of notification within the framework of a process for obtaining consent and as part of the use of decision-making systems based on algorithm or artificial intelligence. Likewise, the document clarifies that the duty of notification stated in Section 11 of the Privacy Protection Act, applies in all cases where assembly of personal data regarding a person is made on the basis of an approach to that person, no matter whether the data is assembled with the consent of the person to whom it applies, or the assembly of data is made under power of authority by law.

In December 2022, the Privacy Protection Authority published an opinion regarding the terms "information" and "knowledge regarding the private matters of an individual", contained in the Privacy Protection Act, including samples of elements and data considered personal information protected under the Privacy Protection in the Digital Era Act.

LEGAL PROCEEDINGS

Note 25G to the financial statements contains descriptions of material legal actions pending against the Bank and against its consolidated subsidiaries.

THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank's rating as determined by rating agencies in Israel and by an international rating agency:

- On August 8, 2022, Midrug ratified the evaluation of the Bank's internal financial stability at the rank of aa2.il, the Bank's short-term deposits at the rank of P-1.il, the Bank's long-term deposits and the senior debt at the rank of Aaa.il/stable outlook and its subordinate debt notes with a loss absorption mechanism at Aa3.il (hyb)/stable outlook rating.
- On November 8, 2022, the international rating agency Moody's ratified the rating of long-term deposits with the Bank in foreign currency and in Israeli currency at A2, the short-term deposits with the Bank at Prime-1, and the rating outlook at "stable".
- On January 10, 2023, S&P Maalot ratified the issuer rating of the Bank at the rank of AAAil/Stable and the deferred debt notes having a loss absorption mechanism at the rank of AAil-.

THE SUPERVISORY SEGMENTS OF ACTIVITY - ADDITIONAL DETAILS

For the description of segments of activity, see note 28 to the financial statements and the chapter on segments of activity in the Board of Directors and Management report.

STRUCTURE OF THE COMPETITION IN SEGMENTS OF OPERATION AND CHANGES THEREIN

CORPORATE SEGMENT

- The majority of business customers in Israel manage accounts at a number of banks, and often at all the large banks operating in Israel as well as at foreign banks.
- The level of competition in the banking system for quality corporate segment customers is very high. The competition is reflected by the level of service and rapidity of response, by the level of prices and fees, and by the terms for the extension of credit. The Bank Group competes against the four other largest bank groups in Israel, as well as against foreign banks with representative offices in Israel, and against off-banking factors such as insurance companies. The competition concerns the ability to provide a rapid and effective response to the changing requirements of each customer, the quality of service and professional personnel, and in the development of sophisticated and innovative banking products.
- Furthermore, the expansion of the non-banking market in Israel as a substitute for bank credit, as discussed above, including credit granted by institutional bodies and insurance companies, and the globalization and liberalization processes enable the Corporate Segment's customers access to the raising capital in local and worldwide capital markets, and with ready access to credit and banking services from banks and financial entities in Israel and abroad.

THE PRIVATE BANKING SEGMENT

- Activity in the private banking segment, which is characterized by a high level of competition, comprises a central layer of the Group's strategy. The Group competes in this segment against all Israeli banks as well as against representative offices in Israel of foreign banks and investment houses, against institutional bodies, private and foreign brokers.
- On this background, and in view of the relatively low credit risk level involved in the private banking segment operations, competition as regards customers is fierce and very dynamic. This competition is expressed in the allocation of considerable resources for the raising of the level of service and consulting to private banking customers, in the training of staff, in a continuous expansion of the array of products being offered, the upgrading of decision supporting technological systems, in the benefits regarding account management terms, in the erosion in the level of bank charges and fees, in many advertising campaigns, focus on personal service and creation of a customer adjusted overall service program.
- Furthermore, the "Beyond" loyalty program creates significant added value and response to competition. "Beyond" offers a world of benefits to customers of the Bank, focusing on private banking, in vacation and leisure areas in Israel and abroad.
- The Bank competes with respect to the upper section of the private banking segment, by means of the "Platinum centers" of UBank branches, which provide customers with a unique service tailored to their type of activity and needs. The "Platinum centers" are characterized by the most qualified staff and operate according to a work model different than the ordinary consulting model in practice at banks.

  This upper section of customers is courted by all banks in Israel, as well as by foreign banks and family offices operating in Israel.

  In order to successfully deal with the said section of customers, the Bank has adopted principles of the family office system, offering a most extensive selection of investment solutions tailored to the character of such customers' activity, in a way that includes holistic view of all assets of the customer and combining the area of long-term savings and providing for pension in the financial planning.

- The Bank is constantly acting to improve work processes and introduce technological improvements with the aim of improving the level of service and expanding the variety of products, including the upgrading and development of services offered on the Internet and on cellular phones, and development of advanced capital market services, such as "advise me"- system which enables the transfer of recommendations from the advisor directly to the cellular phone of the customer and the performance of the advised transactions by the customer through the application. In addition, "smart trade"- service which enables an upgrade to the supervision of the customer of its portfolio and to execute transaction in security through the application, by receiving alerts to his cell phone and creating strategies for buying and selling securities.

THE MIDDLE MARKET BUSINESS SEGMENT

- The competition in the banking system for the middle market segment customers is growing continually. The competition is reflected by the level of service and rapidity of response, by the level of prices and fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products. Competition also comes from non-banking entities, such as insurance companies, and from the opportunity for raising capital in local and overseas markets.
- Most middle market business customers in Israel manage accounts at a number of banks, which increases the competition for these customers. In addition, regulatory requirements that restrict the banks in their activity with large business customers and their increased severity in recent years are prompting the banking system to focus on commercial, mainly middle-market customers.
- The Bank uses the competitive advantage existing in the Group's activity and offers customers to enjoy the factoring services and the financing within the framework of the small and middle market business fund.
- Competition also exists in deposits and savings activity with the segment's middle-market customers, against other banks and against non-banking entities that specialize in the capital and money markets (including insurance companies and investment houses).

THE HOUSEHOLD SEGMENT

In recent years the level of competition on the household segment is rising - both in the banking system and against entities outside the banking system. As part of competition on market share the Group performs needed changes, including adjustment of preparations in the following areas:

- Focusing on the development of the online services of the Group; "International online", advanced cellular phone applications, self-service stations, etc.
- An extensive marketing activity based on supportive computer systems.
- Modifications to the branch layout in accordance with developments in the targeted population of the Group and in accordance with business potential areas.
- Strengthening the personal bond and relations with the customer.
- At the same time, the group continues to focus on specific target populations within the household segment, such as: defense agencies staff and retirees, teaching staff population, professionals, employees of large corporations, the ultra-orthodox customer segment and more. The merger of the activity of Otsar Hachayal into the Bank, as from the year 2019, greatly contributes to improve and widen the service provided to the defense force personnel and its retirees.

The improved position of the Group in the household segment will continue to comprise a central layer of the business strategy of the Group. This strategy is designed to decentralize the income mix of the Group, as well as create a new customer pool, which will provide reserve of private banking customers in the future. The Bank strives to preserve and enlarge the activity of the Group among existing customers, including dual customers, who conduct a part of their financial activity with other banks. Moreover, the Group continues to attract new customers from among the target population of the Group and to introduce measures for the efficiency and improvement of the retail infrastructure.

The following processes are being implemented and/or planned in the course of business for the realization of this strategy:

- Strengthening the concept of focusing on the customer, while modifying value offers, products, the level of service and distribution channels to the preferences and financial needs of each customer.
- Educated management of the retail network with a multi-channel concept, based both on the adequate deployment of the branch layout, and on the constant expansion of online banking services, including advanced automatic appliances, the Internet website, cellular phone applications which are in a state of constant expansion of the banking services included in them, such as FIBI - the virtual banker, biometric identification, expansion of the service of information in a click- allowing the customer receiving information without the need to identify, sending personal massages to customers, correspondence with a banker via electronic mail or SMS on the website or the application, etc.
- A data based systematic initiation of activity with customers in all lines of operation, including account management services, investment activity and consulting, consumption credit and mortgages.
- Preservation of leadership and competitive advantage in the field of savings and investments.
- The Bank provides pension consultation services and present and continuing life planning modified to the needs of the customer. Customers, who had signed a pension consulting agreement, receive digital support by means of the FIBI 360 WISE system.
- Development of mortgage activity as a supplementary retail product.
- Continuing the offer of value and benefits by means of "Beyond" the loyalty program.

THE SMALL AND MINUTE BUSINESS SEGMENT

The competition in the Small and minute Business Segment has increased during recent years.
In this segment, the Group competes with all the banks in Israel and mainly with the four largest banks. Competition also derives from such financial entities as credit card companies, leasing companies and insurance companies. The Bank makes available to the small businesses financial solutions by means of the branch network and by digital means, while focusing on tailoring individual solutions in accordance with the customer's needs and the profile of his activity, and all while strictly maintaining high level of service and rapid response time.

TECHNOLOGICAL IMPROVEMENTS AND INNOVATION

The information technologies layout of the Bank operates and maintains the software and hardware of the core and digital systems of the central and decentralized servers and of the end-user stations, the communication and telephone networks, as well as all the designated and accompanying equipment related to the information technologies at the branches and the Head Office units of the Bank Group.
Within the framework of the computer strategy of the Bank Group, and with a view of providing technological response to developing trends in the modern banking world, several moves were taken in 2022, among which were the integration of advanced technologies and innovative processes, in order to intensify customer experience, while striving for operational excellence, maintenance of technological update and constant improvement in data protection and cyber.

PRINCIPAL ISSUES IN THE FIELD OF TECHNOLOGICAL INFRASTRUCTURE DEVELOPED IN 2022

Architecture

The Bank has established a multi-layer up to date architecture which would form an advanced and flexible infrastructure allowing the rapid, qualitative and stable development of applications, while emphasizing the following issues:

- Formation of design authority processes for determining standards for the development and testing of architecture for applications.
- A platform has been chosen for the speedy development of applications, which requires minimal involvement of development personnel.
- Formation of organizational strategy for the development and transition of applications to cloud computing.

Data

The Bank leads the advanced use of data in favor of customer personalization and improvement of customer experience.
In this framework, the Bank has established a data layout leading advanced data applications of machine learning and modules for natural language processing (NLP). The layout is engaged in the development and leading of advanced models for machine learning, out of the strategic understanding that advanced use of data would provide high value to customers.
As part of the above:

- A platform has been integrated for the management of development of advanced models for machine learning as well as a designated platform for the development of Hebrew language processing models.
- Advanced data teams have been formed (Data Science and Machine Learning Operations).
- A work methodology has been established for effective and valuable development processes.

At the same time, the Bank continues the application of moves for the across the board accessibility of data in the organization and for the use of advanced tools for self-use, in favor of strengthening the organization as a data lead organization.

Digital and Innovation

The Bank continues to expand the digital capabilities and value offers, including:

- Credit to individuals on the digital – setting up a loan to a customer, including application to the credit office.
- Providing/updating of online recommendations for loans on the digital to new and existing customers.
- Addition of trading tool on the capital market – digital orders in respect of public offerings.
- Introducing the academy in favor of qualifying traders on the capital market.
- Addition of online account types on the digital – introduction of online youth accounts.
- Digital supplier factoring – development of a system enabling supplier factoring operations on the Bank's Internet website.

- Life Plan – development of a system enabling the customer to create a financial planning template in order to attain the life goals and targets he had set for himself.

Improving customer service

The Bank focuses on improving service and communication channels with customers, including:
- Improving efficiency of the process of sale of related products upon opening of a new account.
- Digital guarantees – amelioration and improving efficiency of guarantees, and completion of authorizations regarding additional State beneficiaries.
- Introduction of "Beyond", a new and designated website for ordering customer benefits – in cooperation with ISTA Corporation.
- Introduction of a loyalty program – providing tools for creating customer loyalty and its maintenance, and the activation of existing customers.

Open banking

The following stages have been completed:
- Stage B of open banking – charge card data and making a single payment, credit and deposits data.
- Stage C of open banking – information regarding credit, deposits and savings recorded in a customer's account.

Automation

Improvement of service and higher efficiency by continuing the implementation of robotic process automation (RPA) and improvement of business and operational processes, such as:
- Revoking of foreclosure and the release of customer funds.
- Retrieval of documents at the customer's request.
- Curtailing the period for the release of property upon repayment of a mortgage.

Data protection

Cyber architecture:
- Improvements and addition of innovative technological capabilities, in accordance with risk management of the Bank.
- The data protection and cyber defense group has activated the accelerator program for the cyber field and is implementing an innovation track for startup companies, in order to accelerate technology products in the cyber field.

Infrastructure upgrading

- Enlarging the trading infrastructure – "Anafa", "Shaldag" and "Duchifat": enlarging the infrastructure for reporting of credit lines in respect of significant customer activity in the autonomous trading systems, by means of the "Anafa" system. Extension of infrastructure for new products of "Shaldag" and "Anafa".
- ATM – continuation of refreshing the automatic teller machines and customer service stations in accordance with the multi-annual plan. Replacement of decommissioned ATM's and customer service stations.
- Establishment of a new technological infrastructure for virtualization desktop infrastructure (VDI), in a most modern technology.
- Setting up an infrastructure for transition to cloud computing.
- Development of infrastructure for the processing of trends and bottlenecks in the service field, in order to improve response time to customers.
- Upgrading the data base infrastructure.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

A. AVERAGE BALANCES AND INTEREST RATES - ASSETS

	Year ended December 31, 2022			Year ended December 31, 2021			Year ended December 31, 2020		
	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income (expense)	Rate of income (expense)
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing assets									
Credit to the public(2)(5)									
- In Israel	**101,099**	**4,350**	**4.30**	87,465	2,995	3.42	83,763	2,702	3.23
Total	**101,099**	**4,350**	**4.30**	87,465	2,995	3.42	83,763	2,702	3.23
Credit to the Government									
- In Israel	**839**	**30**	**3.58**	687	13	1.89	847	(4)	(0.47)
Total	**839**	**30**	**3.58**	687	13	1.89	847	(4)	(0.47)
Deposits with banks									
- In Israel	**2,990**	**24**	**0.80**	2,452	-	-	2,551	5	0.20
- Outside Israel	**-**	**-**	**-**	-	-	-	28	-	-
Total	**2,990**	**24**	**0.80**	2,452	-	-	2,579	5	0.19
Deposits with central banks									
- In Israel	**43,302**	**542**	**1.25**	46,728	47	0.10	36,570	49	0.13
Total	**43,302**	**542**	**1.25**	46,728	47	0.10	36,570	49	0.13
Securities borrowed									
- In Israel	**464**	**5**	**1.08**	223	1	0.45	46	-	-
Total	**464**	**5**	**1.08**	223	1	0.45	46	-	-
Held to maturity or available for sale bonds(3)									
- In Israel	**14,520**	**208**	**1.43**	14,013	93	0.66	11,350	126	1.11
Total	**14,520**	**208**	**1.43**	14,013	93	0.66	11,350	126	1.11
Trading bonds									
- In Israel	**158**	**2**	**1.27**	302	1	0.33	228	-	-
Total	**158**	**2**	**1.27**	302	1	0.33	228	-	-
Total Interest-bearing assets	**163,372**	**5,161**	**3.16**	151,870	3,150	2.08	135,383	2,878	2.13
Non-interest-bearing debtors regarding credit cards	**2,972**			2,694			2,586		
Other non-interest-bearing assets(4)	**20,949**			17,730			14,205		
Total assets	**187,293**			172,294			152,174		
Total interest-bearing assets attributed to activity outside Israel				-	-	-	28	-	-

See notes in page 312.

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

B. AVERAGE BALANCES AND INTEREST RATES - LIABILITIES AND CAPITAL

	Year ended December 31, 2022			Year ended December 31, 2021			Year ended December 31, 2020		
	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing liabilities									
Deposits from the public									
- In Israel									
Demand	**28,503**	**190**	**0.67**	28,225	1	-	20,659	5	0.02
Fixed-term	**58,260**	**922**	**1.58**	46,939	236	0.50	48,843	197	0.40
Total	**86,763**	**1,112**	**1.28**	75,164	237	0.32	69,502	202	0.29
Deposits from the Government									
- In Israel	**107**	**2**	**1.87**	169	2	1.18	159	3	1.89
Total	**107**	**2**	**1.87**	169	2	1.18	159	3	1.89
Deposits from banks									
- In Israel	**869**	**10**	**1.15**	1,020	1	0.10	1,063	1	0.09
Total	**869**	**10**	**1.15**	1,020	1	0.10	1,063	1	0.09
Deposits with central banks									
- In Israel	**4,196**	**3**	**0.07**	3,299	2	0.06	587	1	0.17
Total	**4,196**	**3**	**0.07**	3,299	2	0.06	587	1	0.17
Bonds and subordinated capital notes									
- In Israel	**4,022**	**229**	**5.69**	3,403	113	3.32	4,099	33	0.81
Total	**4,022**	**229**	**5.69**	3,403	113	3.32	4,099	33	0.81
Other liabilities									
- In Israel	**125**	**2**	**1.60**	112	1	0.89	31	1	3.23
Total	**125**	**2**	**1.60**	112	1	0.89	31	1	3.23
Total Interest-bearing liabilities	**96,082**	**1,358**	**1.41**	83,167	356	0.43	75,441	241	0.32
Non-interest-bearing deposits from the public	**72,811**			70,784			60,357		
Non-interest-bearing creditors in respect of credit cards	**1,674**			2,008			2,428		
Other non-interest-bearing liabilities(6)	**6,044**			6,164			4,832		
Total liabilities	**176,611**			162,123			143,058		
Total capital resources	**10,682**			10,171			9,116		
Total liabilities and capital resources	**187,293**			172,294			152,174		
Interest spread			**1.75**			1.65			1.81
Net return on interest-bearing assets (7)									
- In Israel	**163,372**	**3,803**	**2.33**	151,870	2,794	1.84	135,355	2,637	1.95
- Outside Israel	**-**	**-**	**-**	-	-	-	28	-	-
Total	**163,372**	**3,803**	**2.33**	151,870	2,794	1.84	135,383	2,637	1.95
Total interest-bearing liabilities attributed to activity outside Israel	**-**	**-**	**-**	-	-	-	-	-	-

See notes in page 312.

C. AVERAGE BALANCES AND INCOME RATES - ADDITIONAL INFORMATION ON INTEREST-BEARING ASSETS AND LIABILITIES ATTRIBUTED TO ACTIVITY IN ISRAEL

	Year ended December 31, 2022			Year ended December 31, 2021			Year ended December 31, 2020		
	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)
		NIS million	%		NIS million	%		NIS million	%
Non-linked Israeli currency									
Total interest-bearing assets	**137,517**	**3,941**	**2.87**	129,187	2,431	1.88	112,510	2,427	2.16
Total interest-bearing liabilities	**75,946**	**(665)**	**(0.88)**	67,156	(106)	(0.16)	58,621	(133)	(0.23)
Interest spread			**1.99**			1.72			1.93
Israeli currency linked to the CPI									
Total interest-bearing assets	**12,587**	**940**	**7.47**	11,199	595	5.31	10,619	257	2.42
Total interest-bearing liabilities	**8,170**	**(467)**	**(5.72)**	7,476	(238)	(3.18)	7,566	(54)	(0.71)
Interest spread			**1.75**			2.13			1.71
Foreign currency (including linked to f-c)									
Total interest-bearing assets	**13,268**	**280**	**2.11**	11,484	124	1.08	12,226	194	1.59
Total interest-bearing liabilities	**11,966**	**(226)**	**(1.89)**	8,535	(12)	(0.14)	9,254	(54)	(0.58)
Interest spread			**0.22**			0.94			1.01
Total activity in Israel									
Total interest-bearing assets	**163,372**	**5,161**	**3.16**	151,870	3,150	2.08	135,355	2,878	2.13
Total interest-bearing liabilities	**96,082**	**(1,358)**	**(1.41)**	83,167	(356)	(0.43)	75,441	(241)	(0.32)
Interest spread			**1.75**			1.65			1.81

See notes in page 312.

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

	Year ended December 31, 2022 compared with the year ended December 31, 2021			Year ended December 31, 2021 compared with the year ended December 31, 2020		
	Increase (decrease) due to the change			Increase (decrease) due to the change		
	Quantity	Price	Net change	Quantity	Price	Net change
						NIS million
Interest-bearing assets						
Credit to the public						
In Israel	**587**	**768**	**1,355**	127	166	293
Total	**587**	**768**	**1,355**	127	166	293
Other interest-bearing assets						
In Israel	**(28)**	**684**	**656**	31	(52)	(21)
Total	**(28)**	**684**	**656**	31	(52)	(21)
Total interest income	**559**	**1,452**	**2,011**	158	114	272
Interest-bearing liabilities						
Deposits from the public						
- In Israel						
Demand	**2**	**187**	**189**	-	(4)	(4)
Fixed-term	**179**	**507**	**686**	(10)	49	39
Total	**181**	**694**	**875**	(10)	45	35
Other interest-bearing liabilities						
In Israel	**35**	**92**	**127**	31	49	80
Total	**35**	**92**	**127**	31	49	80
Total interest expenses	**216**	**786**	**1,002**	21	94	115
Total interest income less interest expenses	**343**	**666**	**1,009**	137	20	157

(1) On the basis of monthly opening balances, excluding the non-linked Shekel segment in which calculated on daily balances.
(2) Before deduction of the average balance of provisions for credit losses including non-accruing debts which are non-interest-bearing income.
(3) To the average balance of available for sale bonds was added the average balance of unrealized losses from adjustments to fair value of bonds, included in other comprehensive income in the item "adjustments to fair value of available for sale bonds" for the year ended on December 31, 2022 in the amount of NIS 192 million (year ended on December 31, 2021 amount of NIS 79 million was deducted and for the year ended on December 31, 2020 an amount of NIS 6 million was deducted).
(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
(5) Fees in the amount of NIS 200 million, NIS 212 million and NIS 189 million were included in interest income for the years ended December 31, 2022, December 31, 2021 and December 31, 2020 respectively.
(6) Including derivative instruments.
(7) Net return- net interest income to total interest-bearing assets.
(8) Change attributed to quantity was calculated by multiplying the price in the reported period by the change in the quantity in the compared periods.
Change attributed to price was calculated by multiplying the quantity in the previous period by the change in the price in the compared periods.

APPENDIX 2 -
CONSOLIDATED STATEMENT OF INCOME - MULTI-PERIOD DATA

(NIS million)

	Year ended December 31,				
	2022	**2021**	**2020**	**2019**	**2018**
Interest Income	**5,161**	3,150	2,878	3,085	3,001
Interest Expenses	**1,358**	356	241	483	515
Interest Income, net	**3,803**	2,794	2,637	2,602	2,486
Expenses (income) from credit losses	**123**	(216)	464	138	166
Net Interest Income after expenses from credit losses	**3,680**	3,010	2,173	2,464	2,320
Non-Interest Income					
Non Interest Financing income	**113**	303	148	225	231
Commissions	**1,489**	1,444	1,371	1,286	1,325
Other income	**9**	9	4	9	81
Total non-Interest income	**1,611**	1,756	1,523	1,520	1,637
Operating and other expenses					
Salaries and related expenses	**1,680**	1,601	1,532	1,601	1,696
Maintenance and depreciation of premises and equipment	**332**	340	344	353	376
Amortizations and impairment of intangible assets and goodwill	**113**	105	96	92	91
Other expenses	**630**	606	597	608	656
Total operating and other expenses	**2,755**	2,652	2,569	2,654	2,819
Profit before taxes	**2,536**	2,114	1,127	1,330	1,138
Provision for taxes on profit	**884**	728	368	478	408
Profit after taxes	**1,652**	1,386	759	852	730
The bank's share in profit of equity-basis investees, after taxes	**74**	69	29	51	37
Net profit:					
Before attribution to non-controlling interests	**1,726**	1,455	788	903	767
Attributed to non-controlling interests	**(59)**	(50)	(38)	(38)	(34)
Attributed to shareholders of the Bank	**1,667**	1,405	750	865	733

					NIS
Primary profit per share attributed to the shareholders of the Bank					
Net profit per share of NIS 0.05 par value	**16.62**	14.00	7.48	8.62	7.31

APPENDIX 3 -
CONSOLIDATED STATEMENT OF INCOME - MULTI QUARTER DATA
(NIS million)

Year				2022				2021
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Interest Income	**1,804**	**1,382**	**1,104**	**871**	758	807	856	729
Interest Expenses	**614**	**372**	**245**	**127**	54	97	146	59
Interest Income, net	**1,190**	**1,010**	**859**	**744**	704	710	710	670
Expenses (income) from credit losses	**49**	**43**	**31**	**-**	(10)	(69)	(128)	(9)
Net Interest Income after expenses from credit losses	**1,141**	**967**	**828**	**744**	714	779	838	679
Non-Interest Income								
Non-Interest Financing income (expenses)	**53**	**48**	**(22)**	**34**	89	63	75	76
Commissions	**364**	**370**	**371**	**384**	387	346	350	361
Other income (expenses)	**-**	**1**	**-**	**8**	(1)	6	-	4
Total non-Interest income	**417**	**419**	**349**	**426**	475	415	425	441
Operating and other expenses								
Salaries and related expenses	**449**	**416**	**401**	**414**	402	399	402	398
Maintenance and depreciation of premises and equipment	**83**	**86**	**82**	**81**	85	84	86	85
Amortizations and impairment of intangible assets	**29**	**29**	**28**	**27**	27	27	25	26
Other expenses	**166**	**151**	**151**	**162**	185	135	139	147
Total operating and other expenses	**727**	**682**	**662**	**684**	699	645	652	656
Profit before taxes	**831**	**704**	**515**	**486**	490	549	611	464
Provision for taxes on profit	**287**	**249**	**179**	**169**	158	193	216	161
Profit after taxes	**544**	**455**	**336**	**317**	332	356	395	303
The bank's share in profit of equity-basis investee, after taxes	**10**	**27**	**20**	**17**	12	21	23	13
Net profit:								
Before attribution to non-controlling interests	**554**	**482**	**356**	**334**	344	377	418	316
Attributed to non-controlling interests	**(18)**	**(15)**	**(14)**	**(12)**	(11)	(13)	(14)	(12)
Attributed to shareholders of the Bank	**536**	**467**	**342**	**322**	333	364	404	304

				NIS				NIS
Primary profit per share attributed to the shareholders								
Net profit per share of NIS 0.05 par value	**5.35**	**4.65**	**3.41**	**3.21**	3.32	3.62	4.03	3.03

APPENDIX 4 -
CONSOLIDATED BALANCE SHEET - MULTI-PERIOD DATA
(NIS million)

	As at December 31,				
	2022	**2021**	**2020**	**2019**	**2018**
Assets					
Cash and deposits with banks	**57,130**	57,370	57,802	37,530	31,303
Securities	**16,010**	15,091	13,105	10,995	12,595
Securities which were borrowed	**12**	845	11	9	863
Credit to the public	**117,156**	102,240	92,247	88,829	85,160
Provision for Credit losses	**(1,195)**	(1,076)	(1,277)	(930)	(868)
Credit to the public, net	**115,961**	101,164	90,970	87,899	84,292
Credit to the government	**866**	811	656	1,039	700
Investments in investee companies	**687**	713	636	605	606
Premises and equipment	**902**	931	965	996	1,023
Intangible assets	**317**	300	272	248	239
Assets in respect of derivative instruments	**2,825**	1,709	1,897	1,091	1,399
Other assets	**1,245**	1,536	1,464	698	1,100
Total assets	**195,955**	180,470	167,778	141,110	134,120
Liabilities and Shareholders' Equity					
Deposits from the public	**168,269**	153,447	141,677	120,052	111,697
Deposits from banks	**4,821**	5,144	2,992	1,137	1,150
Deposits from the Government	**237**	960	459	353	982
Bonds and subordinated capital notes	**4,749**	3,356	4,394	3,674	4,989
Liabilities in respect of derivative instruments	**2,322**	2,038	2,314	1,247	1,294
Other liabilities	**4,522**	5,088	6,407	5,723	5,595
Total liabilities	**184,920**	170,033	158,243	132,186	125,707
Capital attributed to the shareholders of the Bank	**10,559**	10,003	9,141	8,568	8,093
Non-controlling interests	**476**	434	394	356	320
Total equity	**11,035**	10,437	9,535	8,924	8,413
Total liabilities and shareholders' equity	**195,955**	180,470	167,778	141,110	134,120

APPENDIX 5 -
CONSOLIDATED BALANCE SHEET - MULTI QUARTER DATA
(NIS million)

Year				2022				2021
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Assets								
Cash and deposits with banks	**57,130**	**56,012**	**56,305**	**53,979**	57,370	57,083	56,673	59,471
Securities	**16,010**	**15,331**	**15,349**	**14,850**	15,091	14,803	16,291	14,730
Securities which were borrowed	**12**	**630**	**289**	**322**	845	232	32	244
Credit to the public	**117,156**	**115,708**	**113,932**	**107,342**	102,240	96,965	96,340	93,581
Provision for Credit losses	**(1,195)**	**(1,169)**	**(1,121)**	**(1,088)**	(1,076)	(1,088)	(1,149)	(1,260)
Credit to the public, net	**115,961**	**114,539**	**112,811**	**106,254**	101,164	95,877	95,191	92,321
Credit to the government	**866**	**862**	**939**	**843**	811	859	101	659
Investments in investee companies	**687**	**679**	**669**	**740**	713	699	675	648
Premises and equipment	**902**	**894**	**904**	**912**	931	929	945	954
Intangible assets	**317**	**297**	**300**	**297**	300	275	279	265
Assets in respect of derivative instruments	**2,825**	**3,800**	**2,880**	**2,332**	1,709	1,565	1,307	1,603
Other assets	**1,245**	**1,943**	**1,580**	**1,484**	1,536	1,436	1,581	1,605
Total assets	**195,955**	**194,987**	**192,026**	**182,013**	180,470	173,758	173,075	172,500
Liabilities and Shareholders' Equity								
Deposits from the public	**168,269**	**164,902**	**164,539**	**154,038**	153,447	148,273	146,276	146,600
Deposits from banks	**4,821**	**4,998**	**5,429**	**6,504**	5,144	5,471	5,035	3,326
Deposits from the Government	**237**	**891**	**570**	**476**	960	417	435	694
Bonds and subordinated capital notes	**4,749**	**5,030**	**4,187**	**3,675**	3,356	2,851	2,833	3,716
Liabilities in respect of derivative instruments	**2,322**	**3,303**	**2,412**	**2,360**	2,038	1,751	1,440	1,554
Other liabilities	**4,522**	**5,166**	**4,469**	**4,672**	5,088	4,538	6,755	6,708
Total liabilities	**184,920**	**184,290**	**181,606**	**171,725**	170,033	163,301	162,774	162,598
Capital attributed to the shareholders of the Bank	**10,559**	**10,237**	**9,973**	**9,851**	10,003	10,022	9,880	9,495
Non-controlling interests	**476**	**460**	**447**	**437**	434	435	421	407
Total equity	**11,035**	**10,697**	**10,420**	**10,288**	10,437	10,457	10,301	9,902
Total liabilities and shareholders' equity	**195,955**	**194,987**	**192,026**	**182,013**	180,470	173,758	173,075	172,500

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