FIBI FIRST INTERNATIONAL BANK OF ISRAEL

ANNUAL REPORT **2023**

CONTENTS

STATEMENT BY THE CHAIRMAN OF THE BOARD

Dear stakeholders,

I am honored to present to you the financial results of the First International Bank Group, results reflecting the quality of the Bank, its financial stability and robustness, components that have double importance in this period of crisis.

The year 2023 was a difficult and challenging year for the State of Israel. On the morning of October 7, the Hamas terror organization attacked the State of Israel with a massive missile barrage and with terrorists attacking the western Negev settlements, IDF bases and the Nova Music Festival taking place near the Re'im Kibbutz. As time went by, the extent of the disaster became clear. Over one thousand murdered, thousands of injured and hundreds of hostages kidnapped to Gaza, including women, children and elderly persons. Following the terror attack, the launching of missiles, the extensive destruction in the settlements surrounding the Gaza Strip, and in view of the escalation in the security situation initiated by the Hezbollah Organization in the North, hundreds of thousands citizens have been evacuated from their homes in the South and the North of the country.

In response to the terror attack, the State of Israel launched the "Swords of Iron" War and hundreds of thousands conscript, regular and reserve servicemen entered the fighting in Gaza and in the Northern Front.

The economic price of the War has led to a significant disruption of life in the economy, due to the detachment of hundreds of thousands of workers and business owners from their workplace, alongside the expenditure on the military campaign, which includes the cost of the Government's assistance required to deal with the distress of the public. The moral damage experienced by the Israeli public following the terror attack and the heavy death toll is enormous, significantly affecting the Israeli economy as well. In February 2024, the international rating agency Moody's lowered the State's credit rating to A2 with a negative outlook. In parallel Moody's lowered the rating of the five large Israeli banks, including the Bank, to A3 with a negative outlook.

The First International Bank, as an essential institute, continued to provide service to its customers all along the period of the fighting, while maintaining the security of its employees and customers, providing various reliefs to the public affected directly and indirectly by the War, and minimizing the damage to business and functional continuity.

Upon the outbreak of the War, the Bank and its employees pitched in to help those injured by the terror attack. Within this framework, the Bank started to escort the community of the Nir-Oz Kibbutz, the Bank considering itself, as the brave Kibbutz residents better define it, a supporting and assisting partner in the long and complex road which the Nir-Oz community has still to cover until its full recovery and return to its home. Furthermore, the Bank has allotted a significant contribution budget for additional important purposes, such as assistance to hospitals, IDF servicemen, residents of additionally attacked settlements, etc. Employees of the Bank volunteer in a touching manner, to a number of initiatives, from fruit and vegetable picking to support of IDF soldiers.

Since the beginning of 2023 and until the terror attack on October 7, Israel found itself in a deep internal crisis, due to an attempt by the Government to pass a significant judicial reform, to the resentment of many citizens, leading to a long and powerful protest, to a deep schism and split in the nation and to a deep credibility crisis between a large part of the population and the leadership of the State and its institutions. This reality had led to high uncertainty, which also had implications on the economic condition in Israel.

In the money markets, this was a year of significant events, including a significant and fast increase in the interest rate, followed by a trend of curbed and declining inflation in Israel and worldwide, which led at the beginning of 2024 to the first lowering of the interest rate by Bank of Israel since 2020.

Despite the complex events and the uncertainty marking the reported year, the Bank Group has succeeded within the framework of its operations in its focused strategic areas, to maintain a relatively high level of income and net earnings and create return on capital of 19.7%. The Bank Group continues to put an emphasis on innovation and technology, understanding that the world of modern banking is based on a combination of advanced banking modified to the needs of customers, together with a leading digital capability.

Towards the end of 2023, Ms. Smadar Berber-Tzadik, the longtime President and CEO of the Bank, retired from office after sixteen years of successful tenure in which she had led and advanced the Bank consistently and impressively, turning it into a solid and growing banking group. Her management had led to the durable creation of value to stakeholders of the Bank, as demonstrated by the results of the Bank all along her period in office and by its financial stability and reputation among the public and the financial world in Israel and abroad. These achievements are expressed, inter alia, by the rating of the Bank, by the price of its shares and by the dividend return, reflecting the trust of the capital market in the professional and qualitative management of the Bank. Ms. Berber-Tzadik was replaced by Mr. Eli Cohen, who until then had acted as Vice-President and Chief Risk Manager of the Bank. On my behalf and on behalf of the Board of Directors, I thank Smadar Berber-Tzadik for her significant contribution to the advancement and development of the Bank, and wish Eli Cohen success in his office.

On my behalf and on behalf of the Board of Directors, I wish to thank the Management and employees of the Bank for their considerable contribution to the business results of the Bank in the reported year, and also wish a quick recovery to the bodily and mentally injured participants in the campaign and the early return of all the hostages, the end of the War on all fronts and the return home of evacuees from the North and the Gaza borderline area. I also wish to join the families of fallen IDF fighters and of murdered civilians in their grief and hope they will not know further sorrow.

Ron Levkovich
Chairman of the Board

Tel-Aviv, March 12, 2024

Report of the Board of Directors and Management

LIST OF TABLES

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT

The meeting of the Board of Directors held on March 12, 2024, 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, 2023.

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

DESCRIPTION OF OPERATION OF THE BANK GROUP

The Bank Group continues to put an emphasis on innovation and technology, understanding that the world of modern banking is based on a combination of advanced banking modified to the needs of customers, together with a leading digital capability.
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 defense 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.

THE BANK'S RATING BY RATING AGENCIES

On October 31, 2023, S&P Ma'alot agency updated the rating outlook of banks in Israel, including the Bank but excluding the two large banks, from "stable" to "negative", on background of the rise in geopolitical risks, and following a similar act regarding the credit rating of the State of Israel. S&P Ma'alot also ratified the issuer rating of the Bank at a level of AAAil. On January 1, 2024, S&P Ma'alot ratified the issuer rating of the Bank at a level of AAAil/negative and its subordinate debt notes with a loss absorption mechanism at a level of AAil-.

On May 23, 2023, 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 October 24, 2023, Moody's announced the placing of the credit rating of the five large banks in Israel, including the Bank, on "examination for the lowering of the rating", and this in continuation of a similar move regarding the credit rating of the State of Israel. On February 13, 2024, Moody's announced the lowering of the rating of long-term deposits with the five large banks in Israel, including the Bank, from "A2" to "A3" with a negative outlook, this similarly to a move regarding the credit rating of the State of Israel.

On August 6, 2023, Midrug agency 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 of the Bank 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.

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. As to this matter, see the disclaimer in the chapter of the effect of the "swards of iron" war, below.

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	2023	2022	2021	2020	2019
					percent
Execution indices					
Return on equity attributed to shareholders of the Bank	**19.7**	16.6	14.7	8.6	10.5
Return on average assets	**1.0**	0.89	0.82	0.49	0.63
Ratio of equity capital tier 1	**11.35**	10.42	11.46	11.18	10.81
Leverage ratio	**5.26**	5.19	5.34	5.29	5.81
Liquidity coverage ratio(1)	**156**	127	128	150	128
Net stable funding ratio(2)	**146**	133	139		
Ratio of total income to average assets	**3.2**	2.9	2.6	2.7	3.0
Ratio of interest income, net to average assets	**2.4**	2.0	1.6	1.7	1.9
Ratio of fees to average assets	**0.7**	0.8	0.8	0.9	0.9
Efficiency ratio	**43.5**	50.9	58.3	61.8	64.4
Credit quality indices					
Ratio of provision for credit losses to credit to the public	**1.36**	1.02	1.05	1.38	1.05
Ratio of total provision for credit losses (3) to credit to the public	**1.50**	1.12	1.13	1.48	1.11
Ratio of non-accruing debts or in arrears of 90 days or more to credit to the public	**0.60**	0.48	*0.63	0.86	1.08
Ratio of provision for credit losses to total non-accruing credit to the public	**234.5**	219.7	*244.0	221.3	131.2
Ratio of net write-offs to average total credit to the public	**0.03**	0.03	(0.01)	0.10	0.10
Ratio of expenses (income) for credit losses to average total credit to the public	**0.42**	0.11	(0.23)	0.52	0.16

Principal data from the statement of income	2023	2022	2021	2020	2019
					NIS million
Net profit attributed to shareholders of the Bank	**2,172**	1,667	1,405	750	865
Interest Income, net	**4,966**	3,803	2,794	2,637	2,602
Expenses (income) from credit losses	**502**	123	(216)	464	138
Total non-interest income	**1,652**	1,611	1,756	1,523	1,520
Of which: Fees	**1,502**	1,489	1,444	1,371	1,286
Total operating and other expenses	**2,877**	2,755	2,652	2,569	2,654
Of which: Salaries and related expenses	**1,746**	1,680	1,601	1,532	1,601
Primary net profit per share of NIS 0.05 par value (NIS)	**21.65**	16.62	14.00	7.48	8.62

Principal data from the balance sheet	2023	2022	2021	2020	2019
					NIS million
Total assets	**221,593**	195,955	180,470	167,778	141,110
of which: Cash and deposits with banks	**68,866**	57,130	57,370	57,802	37,530
Securities	**26,985**	16,010	15,091	13,105	10,995
Credit to the public, net	**117,622**	115,961	101,164	90,970	87,899
Total liabilities	**208,947**	184,920	170,033	158,243	132,186
of which: Deposits from the public	**191,125**	168,269	153,447	141,677	120,052
Deposits from banks	**4,314**	4,821	5,144	2,992	1,137
Bonds and subordinated capital notes	**4,767**	4,749	3,356	4,394	3,674
Capital attributed to the shareholders of the Bank	**12,071**	10,559	10,003	9,141	8,568

Additional data	2023	2022	2021	2020	2019
Share price (0.01 NIS)	**14,990**	13,900	12,950	8,514	9,989
Dividend per share (0.01 NIS)	**795**	942	543	125	410
Average number of positions (4)	**3,634**	3,676	3,715	3,895	4,086

* Restated in respect of the new disclosure format on non-accruing debts instead of impaired debts, since January 1, 2022. Comparative data for 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) Including provision in respect of off-balance sheet credit instruments.

(4) 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.

The risks to which the Bank is exposed, 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, defense, 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 system in Israel, and of the Bank as a part thereof, are affected directly by the economic situation in Israel and globally. Deterioration in economic conditions (including changes in interest rates, in currency exchange rates, in inflation and more), being affected also by the political and defense conditions, may bring about damage to the income of the Bank Group, to growth in scope of troubled debts and to an adverse effect upon the results of the Group.

   The level of the macro-economic risk grew in 2023, on background of high inflation rates, geopolitical changes, effects of the rise in interest in Israel and globally, changes in exchange rates and the weakening of the shekel against leading currencies, volatility in the local capital market, and more.

   In addition, on background of the outbreak of the "Swords of Iron" War in October, the level of macro-economic risk is continuing to rise, mostly due to the economic impact on the economy and the uncertainty as to the scope of the War, its duration, including the length of active service of reservists, and the threat of the War spreading to other arenas, which may have a material effect on the macro-economic environment, and in consequence thereof, on the banking system in general and on the Bank, forming a part thereof, in particular.

   The War clouds the activity of the economy. It has caused disruption of activity in significant economic sectors such as real estate, hotels, food and catering services, has led to an adverse effect on the condition of borrowers in the economy, to an increase in Government expenditure and to the intensification of the Government's deficit. If the War continues it may result in material growth in the rate of unemployment, deterioration in the standard of living in Israel and changes in consumption habits, which might be reflected, inter alia, in the reduction in the volume of credit card operations, volatility in the capital market and in exchange rates and more. The said implications may lead to an adverse effect on the business operations of the Bank, to an increase in the volume of troubled debts and as a result thereof, to an adverse effect on profitability, capital and on the results of the Group.

   In addition, uncertainty exists in the financial markets concerning the possible effects of the War and the effect of the downgrading of the credit rating of the State of Israel.

   In October 2023, on background of the War and the growing geopolitical risks, S&P, the global rating agency, announced the downgrading of the rating outlook of the State of Israel, followed by a similar announcement regarding banks in Israel, including the Bank, and with the exception of the two large banks.

On February 9, 2024, Moody's, the global rating agency, announced the downgrading of the credit rating of the State of Israel from a level of A1 to A2 with a negative rating outlook. Following this, on February 13, 2024, Moody's announced the downgrading of the five large banks in Israel by one degree, from A2 to A3 with a negative rating outlook.

For additional details, see the Chapter on principal economic developments, hereunder. For details regarding the effect of the credit rating of the State of Israel, see the Chapter on capital and capital adequacy.

The developments discussed above, affect the risk environment and may bring about an increase in the level of different risks, such as, liquidity, credit, market, money laundering, cyber, business continuity and more.

The Bank follows closely the developments, the macro-economic condition and the impact upon the Bank. Inter alia, the Bank examines their impact upon customers of the Bank, due to the War, upon volatility in the markets and the effect on the NOSTRO investments and liquidity, the operation of the dealing rooms, cyber subjects, compliance, money laundering and the finance of terror, and more. In addition, discussions are being held regarding the current updating of the impact of the situation on the Bank and its customers, including the issuing of different guidelines to various functions at the Bank and conducting scenarios and stress tests.

2. Strategic/business model risk - the strategic plan of the Bank reflects the changes in the operating environment of the Bank and the material growth in the force of competition, and is being reviewed considering the macro-economic developments and the challenges that face the Bank. The strategic plan for the years 2023-2025 was approved in December 2022. It is being validated once every six months, and if required, processes and strategic goals are updated.

   Changes affecting the business environment and which change 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, the establishment of a credit data base, and more.
   - Changes in customer needs – risks related to changes in customer preferences, including the increasing readiness for obtaining financial services from non-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.

In view of the War and the uncertainty marking the present period, the Bank continues to follow closely the changes in the financial markets and studies the macro-economic effects and the effect of customer conduct on the strategy and the work plan of the Bank. In cases where it is identified that the crisis may have a material impact on operations, the required modifications are being made in order to confront the new situation.

3. Regulatory risk - The risk originates in the growing regulatory requirements in recent years in Israel and the world over. Regulatory changes and the implementation of regulatory reforms increase uncertainty and competition in the financial system and create risk to the income, expenses and capital of the Group, including by way of preventing or restricting business activities. Such changes also require the Bank to make preparations for the implementation and integration of the regulatory requirements, which involve considerable costs and investments, mostly investments in automation. Likewise, noncompliance with the provisions of the Laws and Regulations applying to the Bank and to the Group expose them to sanctions, including monetary sanctions, to claims by customers, including class actions, to criminal liability imposed upon the Bank and its Officers, as well as injury to the public image of the Bank. The regulatory risk is managed by the Bank as part of legal risk, compliance risk and strategy risk.

   The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, serves as a guideline for the operation of all functions at the Bank in the management of compliance risk in general, and in complying with all the regulatory provisions in particular, outlines the principles and fundamentals, and establishes authority and areas of responsibility of the different functions at the Bank and the Group for the purpose of devising an adequate infrastructure for the implementation of the duties applying to the Bank and the Group with respect to compliance and establishing them in procedures and processes.

   The regulatory-legal aspects are supervised and managed by the legal consulting layout, as part of the legal risk management, as approved by Management and the Board of Directors. The policy regularizes the way for identifying, mapping and minimizing the legal risk, including by way of current follow-up of developments in legislation, regulation and rulings, and providing current legal counseling and support, inter alia, on the basis of such developments.

   As regards the strategic aspect, the strategic plan and the work plan relate to the possible implications stated above, taking into account the said changes.

   In view of the War, the unprecedented damage caused to a wide section of the population and the mass call-up of reservists, as well as considerable concern regarding deterioration in the economic situation, the work done these days by the regulatory authorities and by the State, is focused on alleviating and finding solutions to the difficulties and challenges that have occurred.

   In addition, within the framework of a Bill for the amendment of the budget for 2024, due to the War, the Finance Committee of the Knesset has recently passed for second and third readings a Bill, according to which, the banks will make a special payment at the rate of 6% of earnings in the years 2024 and 2025 (for additional details, see Note 8D to the financial statements).

   In the months preceding the War, alongside many reforms and regulatory initiatives that had been and are being promoted in recent years, in relation to the financial sector generally and to the banking business in particular, and in the shadow of fast and significant rise in Bank of Israel interest rate in the course of most of 2023, a trend was recorded of introducing regulatory and legislative initiatives, which are still at their preliminary stage, and which are intended or may, inter alia, affect and intervene, directly or indirectly, in the prices of banking products and services and in the rates of interest in practice in the banking system, as regards the credit to the public side, deposits by the public and securities services.

   It should be mentioned in this connection, that the Competition Authority has announced the beginning of discussions with Bank of Israel regarding the declaration of the five large banking groups as a "concentration group", with reference to the measures to be considered, if and when such declaration materializes, and primary proposals regarding the development of the money market.

   On February 14, 2024, Bank of Israel published "a public appeal for comments of the public as to a graded outline for the licensing and proportional regulation of non-bank entities for the purpose of increasing competition in the banking system". Consultation with the public is with regards to the granting of "banking corporation" license and facilitating permits to non-bank entities including credit card companies, for acceptance of deposits by the public and for extending credit against them in accordance with grading and size, by having facilitating regulation and with the focusing on households and small businesses as customers.

   The intention of Bank of Israel in this framework is to offer graded licenses, all of them either "banking corporation" license, financial institution license, basic bank license, or extended bank license.

   Mentioned, inter alia, are announcements and examination of moves, each of which separately, and definitely some of them together, may directly affect the activity of the banking system and its results of operation, as well as the regulatory relations required from banks, and this, inter alia, in view of the possible effect that a significant and quick change may have on the conduct of the economy, and in view of the fact that no similar experience exists in Israel or abroad, with respect to most of these moves, and their possible implications.

At this stage, it is not possible to assess the extent, if at all, and which of these initiatives would materialize and when, and what would be the effect on the Bank of these changes or part thereof, if at all realized. The said trends have in part returned to the agenda, several months following the outbreak of the War.

For details regarding material regulatory initiatives having a possible impact on the activities of the Bank during the reported period, as well as those enacted on the background of the War, see "Legislation and regulatory initiatives" in the chapter on "Corporate Governance".

4. Compliance risk – compliance risk is the risk of a legal or regulatory sanction being imposed, of material financial loss, or damage to reputation which a banking corporation might suffer as a result of not abiding by provisions of the law. Compliance risk includes the risk of not complying with the provisions of the law as detailed in Proper Conduct of Banking Business Directive No.308, including the risk of not complying with the provisions of the law regarding anti-money laundering and the finance of terror, the risk of non-compliance with provisions of internal enforcement plans regarding the securities laws, economic competition laws, risk of non-compliance with privacy protection laws and the risks involved in operations relating to foreign residents. This risk includes also the bank conduct risk.

   Intensified regulation and enforcement by tax authorities in different countries, with the aim of locating funds of their residents held outside their country of residence may implicate the form of conduct of customers thereby exposing the bank to compliance risk, reputation risk and cross-border risks.

   The effect of compliance risk, anti-money laundering and the finance of terror has implications on all sections of operation of the Bank, including administrative enforcement and local and international regulation regarding taxation, including FATCA and CRS.

   The war between Russia and the Ukraine had led to heavy sanctions being imposed on Russia and Belarus by different countries around the world (the United States and countries in Europe including the European Union in particular). Attempts to use banks in order to bypass the sanction regimen by interested parties expose the banking system to a line of risks. The risk of correspondents refusing to provide service to a bank due to violation of the sanction regimen and harm caused to foreign trade and capital market operations, risk of penalties, sanctions, reputation and more, in a significant scope than in the past.

   A letter of the Supervisor of Banks of June 8, 2022, in the matter of risks involving factors declared on international and national sanction lists of foreign countries, relates to significant risks to which banking corporations are exposed with respect to the bypassing of sanction regimen imposed by foreign countries and international organizations. The banks were guided to adopt policies and procedures regarding foreign countries and regarding engagement and transactions with declared factors on the said lists, based on Proper Conduct of Banking Business Directive No. 310 in the matter of risk management. It is further noted in the letter that refusal to approve a transaction, refusal to enter into an agreement or the termination of engagement due to the implementation of a policy , as stated, shall be considered as reasonable refusal for the granting of service under the Banking Act, and that measures taken against customers of banking corporations within the framework of the said implementation, shall be in accordance with the duties of the banking corporations towards their customers, inter alia, taking into consideration the circumstances and nature of the transaction.

   The emergency situation due to the war, intensifies compliance risks and greater awareness is required on the part of the Bank regarding the compliance risk issue, anti-money laundering and the finance of terror, in order to avoid abusing the crisis for money laundering and finance of terror purposes. The Compliance Department of the Bank conducts controls with a focus on identifying operations reflecting "red lights" as to transactions raising suspicion relating to compliance, anti-money laundering and finance of terror. In view of the expansion of sanctions by the United States in December 2023, emphasizing the duties of financial institutions outside the US, the Bank carries out several actions in accordance with the requirements of the Expansion Order, inter alia, increasing the monitoring and controls on foreign trade operations at the Bank. Likewise, following publications regarding the imposition of sanctions by the US and countries in Europe on Israeli citizens, the Bank has formed guiding rules, required in order to operate with due care regarding the various duties imposed upon it in this respect.

   In view of that stated above, the compliance policy of the Bank Group includes a risk policy concept derived from the different sanctions regimen. The determined guiding rules are intended to create a balance between risk management according to the determined policy, and the required continuity of providing banking and international services to customers of the Bank and the Group.

5. 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 preventive actions for the reduction in risk, including promoting awareness to cyber risk and data protection 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. The War has led to an increase in attack attempts on organizations in Israel, including avoidance of service attacks (DDOS), as well as to an increase in fraud events combined with social engineering.

   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, strengthening and improving protection mechanisms and increasing awareness of employees, 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, in accordance with the content of the policies.

6. 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.

7. 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 the "Swords of Iron" War

On October 7, 2023, a terror and cruel massacre attack broke out, with the penetration of thousands of terrorists from the terror organizations in the Gaza strip into settlements surrounding the Gaza Strip and the south of Israel, and under cover of a heavy barrage of missile towards areas of the State of Israel. In view of the said events, the Minister of Defense and the Minister of National Security announced a special situation for the rear of the country and a state of emergency for the whole country, as well as announcing the beginning of the "Swards of Iron" War. This period is marked by a high extent of uncertainty with respect to the development of the War, its scope and economic implications. For details, see the Chapter "Principal economic developments", hereunder.

With the outbreak of the War, and in order to facilitate the confrontation by Bank customers as to the difficulties of the War and its implications, the Bank has adopted a series of significant alleviations, within the framework of the Provisional Instruction published by the Supervisor of Banks (as detailed further on), and also by granting additional alleviations, including extending the benefits to different populations, which included the defense forces and regular servicemen.

On background of the War, Bank of Israel has published Proper Conduct of Banking Business Directive No. 251 – Modifications of Proper Conduct of Banking Business Directives for the purpose of confronting the "Swards of Iron" War (Provisional instruction), within the framework of which, various alleviations formed by the Supervisor of Banks have been granted, in order to assist the banking system and its customers in confronting the challenges of the situation. For details regarding this Directive and additional regulatory instructions, see "Legislation and regulatory initiatives" in the Chapter "Corporate governance". Furthermore, on October 15, 2023, the Supervisor of Banks issued a crosswise assistance outline for customers, formed in participation with the banking system (hereinafter – "the basic outline"), which includes alleviations in matters of credit and commission to customers of the "first circle" (those residing and operating within a range of 30 km from the Gaza Strip, persons evacuated from their homes by an official function, reservists called-up under Order 8, next of kin of war victims, of kidnapped persons and of the missing). In accordance with the outline, such customers may apply for the deferral of payments in respect of mortgages, consumer and commercial credit, for a period of three months, free of interest in respect of the deferred amounts, and all in amounts and under certain circumstances. Likewise, "first circle" customers comprising households, except for the population of reservists on active service and those called-up under Order 8, would be free of interest on debit balances on current accounts of up to NIS 10,000, for a period of three months, on condition that prior to the publication of the outline, their account showed a debit balance.

In addition, "first circle" customers, who are individuals and small businesses, would be entitled to exemption from certain commissions for a period of three months. In respect of other customers, the outline allows the deferral of payments respecting mortgages and consumer and commercial credit for a period of three months, free of commissions, in certain amounts and conditions, with the cost of deferral being computed in accordance with the contractual interest rate. The terms stated in the said outline are minimum terms, and each bank may expand the outline in favor of its customers and at their request.

On November 8, 2023, Bank of Israel announced the expansion of the outline by including in customers of the "first circle" the population residing in settlements of northern Israel or those having a business in such settlements, which had been evacuated by an official function as of November 7, 2023, and which reside in one of the settlements listed in schedules published on the website of Bank of Israel.

On December 17, 2023, Bank of Israel announced the extension of the basic outline by three additional months, beginning on January 1, 2024. Likewise, Bank of Israel added to the "first circle" the population of the participants in the "Nova" Festival at Re'im, as well as the accounts of those kidnapped, missing and their siblings. The extended outline allows customers who had not yet applied for a deferral to apply for a deferral of three months, and those customers who had been granted such deferral, to apply for a deferral of three additional months (in accordance with the amounts and terms detailed in the primary outline). An additional benefit was granted in respect of the "first circle" group, of exemption from interest charges on a debit balance of up to NIS 30 thousand, to businesses having a turnover of up to NIS 5 million.

On March 4, 2024, Bank of Israel announced the extension of the outline by three additional months, beginning on April 1, 2024. The "first circle" population was also enlarged to include residents of areas which the Government had decided to evacuate but who have as yet in fact not been evacuated, victims of the "Passydack" Party and of the preparation meeting for the "Midbaran" Festival as well as reserve servicemen hospitalized for a period of at least seven days due to injury caused in the fighting. The terms of the outline have been expanded so that reserve servicemen shall be exempt from interest charges on current account debit balances of up to an amount of NIS 10,000, for a period of three months (provided that immediately prior to the publication of the expansion their account showed a debit balance). Classification of the reserve servicemen for the purpose of granting the benefits, would be made by the Bank in initiated manner with no need for proof.

The Bank applies the outline as well as all guidelines of Bank of Israel with respect to the preparations for the offering of banking services during the War period, while maintaining the principle of fairness to customers and the monitoring of the financial condition of borrowers.

In addition to the said basic outline, the Bank has adopted a line of additional steps in order to assist its customers. Customers residing in the area surrounding the Gaza Strip (within a range of 7 km from the border) have been granted benefits, including standstill in mortgage repayments for three months, free of interest for the period of the deferral, and the granting of interest and linkage free loans of up to NIS 20 thousand for a period of two years. Benefits regarding mortgages have also been granted to regular servicemen in accordance with the basic outline, as stated. Two designated funds of NIS 100 million each have been established, one for regular servicemen and the other for reserve servicemen, for the granting of interest free loans for a period of one year, and business customers have been granted the benefit of deferring repayment of loans.

The Bank studies the implications of the expansion of the outline of March 4, 2024. At this stage, assessment of the amount of the said total benefits might reach NIS 149 million, assuming the exercise in full and not including the effects of extending the outline, as stated. Such costs would be charged to profit and loss as incurred upon exercise of the benefits by customers. The total amount of benefits recognized in profit and loss in the fourth quarter of the year, was NIS 32 million. For additional information regarding deferral of loan repayment, see the Chapter "Risk review – credit risk", hereunder.

Following are details regarding benefits within the framework of confrontation with the War (in NIS millions)

						December 31, 2023
	Housing	Private individuals - other	Small and minute businesses	Middle market businesses	Large businesses	Total
Effect of benefits granted by the Bank in coping with the war						
Modifications of terms of debts	**10**	**8**	**7**	**-**	**-**	**25**
Interest free or reduced interest loans	**-**	**2**	**-**	**-**	**-**	**2**
Waiver of fees	**1**	**3**	**1**	**-**	**-**	**5**
Other benefits	**-**	**-**	**-**	**-**	**-**	**-**
Total benefits granted by the bank	**11**	**13**	**8**	**-**	**-**	**32**
Unutilized benefits	**26**	**79**	**12**	**-**	**-**	**117**
Total benefits assuming full utilization	**37**	**92**	**20**	**-**	**-**	**149**
Additional information regarding activities to benefit borrowers in coping with the war						
Balance of credit with modification of terms of debts	**3,065**	**387**	**1,147**	**220**	**105**	**4,924**
Amount of deferred payments	**59**	**23**	**97**	**18**	**3**	**200**
Average payment deferral in months	**4**	**3**	**3**	**3**	**1**	**3**
Of which: problematic credit	**35**	**8**	**27**	**4**	**-**	**74**
Of which: credit that has undergone troubled debt restructuring	**2**	**-**	**9**	**-**	**-**	**11**
Balanced of interest free or reduced interest loans granted	**-**	**32**	**1**	**-**	**-**	**33**
Average interest rate						**0%**
Average prime interest rate during the relevant period						**6%**
Loans granted within state backed funds						
Credit balance	**-**	**-**	**-**	**-**	**-**	**-**
Average interest rate						
Of which: Balance of credit granted with financing by the Bank of Israel	**-**	**-**	**-**	**-**	**-**	**-**
Average interest rate	**-**	**-**	**-**	**-**	**-**	**-**
Balance of loans granted with financing by the Bank of Israel (including through state backed funds)						
Credit balance	**-**	**-**	**107**	**-**	**-**	**107**
Average interest rate						**6%**

Management and the Board of Directors of the Bank maintain current follow-up of all matters and risks pertaining to the War, its implications and financial impact on the Bank, including the impact on customers of the Bank, on volatility in the markets, and on credit risk, liquidity, the NOSTRO investments, operation of the dealing rooms, and more. For additional details, see the Chapter "Risk review – credit risk, market risk and liquidity risk", hereunder.

It is noted that in matters of compliance risk, money laundering and finance of terror, the Compliance Department of the Bank conducts controls, with a focus on identification of operations reflecting "red lights" concerning suspicious activity in matters of compliance, anti-money laundering and finance of terror. Furthermore, in the matter of cyber risk, the War has led to an increase in attack attempts on organizations in Israel; including "distributed denial-of-service" (DDoS) attacks, as well as increase in fraud attempts combined by social engineering. Exposure to materialization of a cyber event increases, inter alia, as a result of growing use by customers of digital channels and the continuing remote work by employees and suppliers. The Bank, currently, adopts measures for the minimization of risk, including remote access protection solutions, increased monitoring and improvement of protection mechanisms and increasing employee awareness, in accordance with developments in threat.

Within the framework of maintaining business continuity, the Bank has adopted a line of measures, inter alia, holding of emergency designated meetings, transferring employees to remote work, operation of mobile branches, and more. The Bank studies the situation on a current basis and introduces modifications to operations.

The results of operation of the Bank Group for the period ended December 31, 2023, have been affected, inter alia, by the growth in credit loss expenses in the third and fourth quarters of the year, stemming from the collective allowance for credit losses, explained mostly by existing concerns regarding forecasted macro-economic effects in view of uncertainty regarding economic condition, inter alia, following the implications of the state of war in which the State of Israel is found. For additional details, see the Chapter "Developments in income and expenses – credit loss expenses", hereunder. Likewise, see the Chapter "Accounting policy and accounting assessment of critical matters" hereunder.

Upon the outbreak of the War the Bank pitched in to assist in the war effort. It has significantly increased the donations budget to the tune of millions of shekels, and has established a designated Forum for the forming of an outline, according to which, the Bank acts in assisting by means of donations, in the support of residents of the area surrounding Gaza and of the fighting forces. In this framework, the Bank has allocated a significant budget for the support and accompaniment of the Nir Oz Kibbutz in its rehabilitation process, and this, alongside additional significant contributions to the defense forces, to additional settlements in the area, to residents of the area, to hospitals, and more. Concurrently, employees of the Bank take an active part in various voluntary projects supporting the war effort. For additional details, see the item "Involvement and contribution to the community" in the Chapter "Corporate governance".

As stated, it is not yet possible to assess the full impact of the War upon the Bank, due to uncertainty regarding the duration of the War, its scope, the spreading thereof to additional arenas, if at all, as well as uncertainty regarding the derivative effect on economic activity, on trends in the capital markets and the different financial measures that might be adopted by the Government, by Bank of Israel and by additional Regulators.

OBJECTIVES AND STRATEGY

The Bank operates according to a multi-annual strategic plan validated by the Board of Directors. The new corporate strategy for the years 2023-2025, was approved by the Board of Directors in December 2022. In the framework of the new strategy, new digital strategy was also formulated. It is being validated once every six months, in the framework of which, a review of the operations environment is carried out and the implications on the Bank's strategy are examined. If required, processes and strategic goals are updated.

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;
- Activities in order to utilize the potential in the mortgage area;
- Segment focused growth in the business sector while strengthening the relationship with the customers;
- 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 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.

The Bank operates according to a comprehensive ESG strategy, in the framework of which a policy and multiannual targets were determined, focusing on several central areas, as detailed 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 and guidance.
- 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 directives of the Supervisor of Banks, 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 are presented on the Internet website of the Bank and are published to customers, with the aim of expanding the scope of exposure to such contents, 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 or customers at retirement age. 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

	2023	2022
Environmental		
Consumption of resources		
Consumption of electricity (in kw/h)	**22,776,287**	24,116,663
Carbon footprint		
Emission volume (in CO2 eq tons)	**11,986**	12,607
Social		
Employees		
Number of employees	**3,628**	3,658
Rate of female employees at the Bank	**67%**	67%
Volume of investment in learning and employees' training (in days)	**17,318**	24,572
Suppliers		
Rate of local suppliers	**98%**	97%
Social credit		
Balance of credit to tiny, small and middle market businesses (in NIS millions)	**25,535**	28,211
Of which: credit to tiny, small and middle market businesses guaranteed by the Government (in NIS millions)	**923**	1,546
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%**	36%
Number of Board of Directors plenary session meetings	**27**	31
Number of Board of Directors Committee meetings	**62**	55
Average period of service as Director (in years)	**8.8**	7.8

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, in the year of 2023, as well as the economic effects stemming from the “Swords of Iron” war, which broke on October 7, 2023.

With the brake of the war, a widespread call-up of reservists has been declared, settlements in the warfare zone and in other threatened areas have been evacuated, workplaces have been shut down and certain employers put employees on unpaid leave.

The War leads to a sharp increase in Government expenditure (mostly for defense, renewal and civilian aid) alongside a decline in the State’s income, leading to an increase in the budgetary deficit and debt to GDP ratio. The costs of the War, defense and civilian, were estimated in January 2024, by the Research Division of Bank of Israel, by more than NIS 200 billion (gross, before the deduction of the aid from the US government and deduction of other expenses). Loss of income in 2023 was intensified, among other things, by the standstill in the operations of the construction segment, which is a significant source for direct taxes (capital gain on real estate tax and purchase tax) and indirect taxes (VAT on new apartments and lands).

It should be noted, that great uncertainty prevail in respect of the length of the war, its spread to additional arenas, and the extent of the ramifications deriving from it on the economy.

GROWTH

The Research Division of Bank of Israel updated the macro-economic forecast on January 1, 2024 in the midst of the "Swords of Iron" War, noting that the forecast is based on the assumption that the direct economic effect of the War on the economy was at its record height in the last quarter of 2023, and would continue at a declining force in the course of 2024. In accordance with the forecast, the product is expected to grow at a rate of 2% in each of the years 2023 and 2024 (similarly to the last forecast of November 2023) and at a rate of 5% in 2025. This estimation by the Research Division of Bank of Israel, reflects damage caused both to the supply side and to the demand side. On the supply side, on background of the extensive call-up of reservists and the partial shutdown of educational institutions, mostly in the first two months of the War, which led to a decline in the supply of labor in all economic sectors, specifically the damage caused to the construction and agricultural sectors, due to restrictions on entry into Israel of building workers from the Judea and Samaria areas, the total cessation of employment of workers from the Gaza Strip, and due to the departure of foreign workers. In addition, the production ability in the fighting areas and in endangered areas has been disrupted due to damage to the physical capital and to the ability to operate. On the demand side, the damage to private consumption demand and to incoming tourism services demand is expected to continue.

The global credit rating agency S&P, published on November 13, 2023, its estimates regarding the anticipated economic growth in Israel on background of the War, stating that growth is expected to reach 1.5% in 2023, and 0.5% in 2024, while accelerated growth at a rate of 5% is expected in 2025.

CREDIT RISK OF THE ECONOMY

On February 9, 2024, the global rating agency Moody's announced the downgrading of the credit rating of the State of Israel from a level of A1 to A2 with a negative rating outlook. At the same time, Moody's stated that the reason for the downgrading of the rating is uncertainty as to the time and manner of termination of the War, its impact on availability of the Government and the Knesset to deal with economic and social core issues, and the change in the fiscal condition. The reason for the negative rating outlook is uncertainty regarding the spreading of the fighting to the Northern front. Similarly, on February 13, 2024, Moody's announced the downgrading of the rating of the five large banks in Israel by one grade, from A2 to A3 with a negative rating outlook.

On October 25, 2023, the global rating agency S&P ratified the credit rating of the State of Israel regarding the foreign currency debt, at a level of AA-. Notwithstanding that, on background of the War, S&P announced a change in the rating outlook from "stable to "negative", and also that a further downgrading of the credit rating may be affected to the extent that the military conflict would materially widen, increasing the defense and geopolitical risks confronting Israel. Similarly, S&P Ma'alot, announced a change in the rating outlook from "stable to "negative", in respect of additional banks in Israel, including the Bank.

On October 17, 2023, the global rating agency Fitch ratified the credit rating of the State of Israel at a level of A+. Notwithstanding that, on background of the War, Fitch announced a change in the rating outlook from "stable to "negative", due to the risk of the fighting being widened to additional fronts. Similarly, Fitch announced a change in the rating outlook of the four large banks in Israel, from "stable” to "negative follow-up". It is noted, that the Bank is not being rated by Fitch.

The macro-economic forecast, published by the Research Division of Bank of Israel on October 23, 2023, noted that war scenarios had been tested several times within the framework of the uniform macro-economic stress test intended for the banking system, and that such scenarios had shown that the banking system is expected to maintain its solidness and stability.

STATE BUDGET

After five months, in which the Government had operated under a "continuing budget" format, the Knesset passed on May 24, 2023, the State budget for the years 2023 and 2024. Due to the War, the Government approved on January 15, 2024, an updated Sate budget for 2024, which included a rise in the budget deficit for 2023 of 4.2% of GDP (in comparison with a surplus of 0.6% of GDP in 2022). The deficit in the budget for 2024 is expected to amount to 6.6% of GDP.

In a forecast by the Research Division of Bank of Israel, published at the beginning of January 2024, Bank of Israel notes, with respect to the fiscal policy, that the debt/GDP ratio is expected to rise to 62% in 2023 (a decrease of 1% as compared to the recent forecast of November) and to 66% in the years 2024 and 2025. This, following a fiscal policy that had led the economy to a debt/GDP ratio of 60% immediately prior to the War.

INFLATION

In 2023, the Consumer Price Index ("for the month") rose by 3.0%, following a rise of 5.3% in 2022. According to an update of the Research Division of Bank of Israel dated January 2024, moderation is anticipated regarding inflation rates in the years 2024 and 2025, of 2.4% and 2.0%, respectively.

The monetary policy report by Bank of Israel of January 2024, states that the inflationary expectations for the coming year, coming from different sources (the capital market and forecasters), are found within the target range, amounting to 2.6% and 2.4%, respectively.

HOUSING MARKET

In the report on prices in the housing market, published by the Central Statistical Bureau (CSB) in January 2024, it is stated that moderation continues with respect to the scope of operation of the housing market, and that a decrease of 1.8% is noted in the comprehensive apartment price Index, with a decrease of 3.9% in the new apartments price Index, in comparing transactions effected in October-November 2023 with the corresponding period in the previous year. A review of the residential real-estate market, published by the Ministry of Finance in February 2024, states that the number of transactions effected in December 2023, decreased by a rate of 15%, as compared to December of the previous year, a moderated rate in comparison with the decrease during the early months of the War, thus the year 2023 ended as one of the lowest years in the past twenty years, regarding the number of transactions.

LABOR MARKET

According to the manpower surveys published by the CBS in January 2024, on background of the War, a steep rise was recorded in the months of October and November 2023, in the wide range unemployment rate (among fifteen years old and over), to a level of 10.4% (468 thousand unemployed) in October and 10% (448 thousand unemployed) in November, which was moderated in December to 7.5% (342 thousand unemployed), as compared with a level of 4.2% (192 thousand unemployed) in September 2023, prior to the War.

According to forecasts by the Research Division of Bank of Israel of January 2024, the wide range unemployment (among 25 years to 64 years old) is anticipated to reach 4.5% in 2023 (a rate higher by 0.2% as compared to the prior forecast), 5.3% in 2024 (a rate higher by 0.8% as compared to the prior forecast) and 3.2% in 2025.

BANK OF ISRAEL INTEREST RATE

In the second half of 2023, Bank of Israel left the interest rate unchanged at a level of 4.75%, this following the raising of the interest by 1.5% in the first half of 2023. On January 1, 2024, the Monetary Committee of Bank of Israel decided to reduce the interest rate by 0.25% to a level of 4.5%. On background of the War, the Committee declared that the interest outline would be determined in accordance with the continuation of the inflation in reverting to its targeted range, the continuation of stability in the financial markets, the economic activity and the fiscal policy. In the interest decision published on February 26, 2024, Bank of Israel left the interest rate unchanged at a level of 4.5%. According to estimates of the Research Division of Bank of Israel of January 2024, the interest rate is expected to get stabilized at a level of 3.75% or 4.0% on an average, in the fourth quarter of 2024.

EXCHANGE RATE

During 2023, the rate of exchange of the US dollar as against the shekel rose by 3%, this in continuation of a rise of 13% in 2022. On background of the War, in the last quarter of 2023, considerable volatility is noticed in the exchange rate of the dollar against the shekel. During the first three weeks of the fighting, the shekel weakened, with the exchange rate of the dollar crossing the 4 shekel line. However, since the beginning of November the trend turned over and a significant appreciation of the shekel has begun, so that at the end of 2023, the exchange rate of the dollar against the shekel amounted to NIS 3.627. Appreciation of the shekel continued, and at the end of February 2024, the exchange rate of the dollar against the shekel amounted to NIS 3.584.
The monetary policy report by Bank of Israel of January 2024, states that in the background of the appreciation are found: a certain brightening in the War situation, probability of the War slithering to a number of fronts and also estimates regarding imminent lowering of the interest by the FED and the ECB.
As against the Euro, the shekel had weakened since the beginning of the year by 7%, so that at the end of 2023, the exchange rate amounted to NIS 4.012.
Due to the economic implications of the War, and for the purpose of stabilizing the markets, Bank of Israel announced on October 9, 2023, a plan for the sale of foreign currency in an amount of up to US$ 30 billion, within the framework of which, it sold in October and November an amount of US$ 8.5 billion. No such sales were made by Bank of Israel in December 2023 and in January 2024.
In addition to the above, Bank of Israel announced the operation of swap transaction mechanisms in the foreign currency market, in an amount of up to US$ 15 billion, in accordance with requirements. Also announced was a RIPO transaction plan in respect of government and corporate bonds, the aim of which is to provide liquidity to institutional bodies and mutual trust funds.

THE GLOBAL ENVIRONMENT

During 2023, the global economy had been challenged by an array of events: the continuation of the war in the Ukraine, detachment of several European countries from dependence on the supply of gas produced in Russia and slower than expected growth in China.
The defense events in Israel had a moderate impact on the global financial markets. Notwithstanding that, threats by the Houties on shipping to Israel through the Red Sea, have been recognized by a coalition of states led by the United States as threatening the global maritime trading, and a multi-nation task force has been assembled to defend this critical waterway.
The global Purchase Managers' Index for December 2023, published by JP Morgan, maintained stability, staying at a level of 49.0 points. For the past sixteen months this Index is found at a level of below 50.0 points.
The worldwide inflationary environment continues at a level higher than the targeted ranges of the central banks, though it is showing a moderated trend in many of the developed countries.

In the US, following ten consecutive raisings of the interest rate (since the beginning of 2022) with one intermission in June 2023, the interest rate was raised by the Fed in July 2023, by 0.25% to a level of 5.50% (the upper limit of the interest range), a record high for 22 years. In the months from August to December 2023, the FED left the interest rate unchanged.

In the Eurozone, the ECB raised the interest in September 2023, by 0.25% to a level of 4.50%, the tenth consecutive hike since the beginning of 2022, and the highest interest rate since 2008. In the months from October to December 2023, the ECB left the interest rate unchanged.

In Britain, the central bank had left unchanged the interest rate in the period from September to December 2023, at a level of 5.25%, the highest in Britain since 2008.

In November 2023, Moody's ratified the credit rating of the United States at a level of Aaa-, the highest in its rating grades, but downgraded the rating outlook of the United States from "stable" to "negative". In August 2023, Fitch downgraded the credit rating evaluation of the United States from AAA- by one grade to AA+, changing the rating outlook from "negative" to "stable". The rating agency noted that a continuous deterioration had taken place in the standards of the Administration over the past twenty years, including as regards fiscal issues and debt issues. Fitch foresees growth in Government deficit from a ratio of 3.7% in 2022, to a ratio of 6.3% of GDP in 2023, with continuation of the growth in deficit in the years 2024 and 2025 to a level of 6.6% and 6.9%, respectively.

CAPITAL MARKET

Trading on the capital markets around the world, during the year 2023, was summed up by rising quotations in most leading indices. The NASDAQ 100 rose by 54% and the S&P 500 rose by 24%. In Europe, the Eurostoxx Index rose by 19%, and the DAX Index in Germany rose by 20%, while the Cac Index in France rose by 17%. The trend in the East-Asian countries was mixed, with the Japanese Nikkei Index rising by 28% and the Kospi Index in South Korea rising by 19%, while the Hsi Index in Hong Kong falling by 14% and the Csi Index in Chaina falling by 11%.

Trading on the local market during 2023, was marked by high volatility, on background of political uncertainty relating to legislation initiatives regarding reform in the judicial system in Israel and the "Swords of Iron" War. The TA 125 Index rose moderately by 4%. The sectional indices, the TA Oil and Gas Index sprinted upwards by 38%, the TA Technology Index rose by 17% and the TA Real Estate Index rose by 8%.

A positive trend was recorded in 2023 in the corporate debt channel, which follows bonds of the highest value, both in the shekel channel and in the CPI linked channel, which rose at a similar rate of up to 5%. Trading in government bonds showed a mixed trend: bonds linked to the CPI and short-term shekel bonds recorded a moderate rise of up to 4.5%, whereas bonds for ten years and over dropped by 5%. The decline in return on long-term government bonds was impacted by anticipations that the interest rates would remain at a high level.

The Tel Bond-Dollar Index that includes foreign currency linked corporate bonds, rose by 15% since the beginning of the year and until the outbreak of the War. This rise was recorded concurrently with the strengthening of the dollar in relation to the shekel by 10%. In the same period, since the outbreak of the War and until the end of the year, the Index dropped by 4%, concurrently with the weakening of the dollar as against the shekel. In total for 2023, the Tel Bond-Dollar Index has added 12% to its value.

The average daily trading turnover in government bonds in 2023 totaled NIS 2.9 billion, which is higher by 19% then the turnover in 2022. Most of the growth in trading turnover stemmed from the shekel government bonds, due to increased activity by foreign investors. On the other hand, the average daily trading turnover in corporate bonds (including structured bonds and ETN's) amounted to NIS 1 billion in 2023, lower by 3% than the average turnover in 2022. The trading turnover in the share market amounted to NIS 2 billion in 2023, lower by 12% than the turnover in 2022.

EFFECT OF CHANGES IN INTEREST AND IN THE CPI ON OPERATIONS OF THE BANK AND ITS CUSTOMERS

In 2023, the CPI rose by 3.3%, and Bank of Israel interest, which had remained unchanged for a long time, rose from a level of 0.1% in April 2022, to 4.75% (starting on May 25, 2023).

The Bank takes diverse steps in order to face the effects of the changes in interest and inflation upon its customers, which included conducting sensitivity tests and current tests examining the repayment ability of customers, according to the different segments of operation, while providing specific treatment in accordance with the results, and updating assumptions relating to different models used in the credit risk and market risk fields.

Furthermore, the Bank has announced, prior to the outbreak of the war, a set of steps intended to assist customers, in view of the rise in interest, and published a benefit package for private customers, which includes, inter alia, payment of interest on current account credit balances, reducing the interest charged on overdrafts and benefits to mortgage loan borrowers. The above applies to customers fulfilling the requirements of determined tests, and would be granted automatically with no need for active involvement by the customer, and under terms stated in the program. Likewise, the Bank has devised unique complementary investment products, offered to customers in order to encourage investment in accordance with their specific needs. The Bank continues to follow and monitor risk, including such, the probability of it being realized has grown following the said changes and events, ramifications and impact on the Bank.

As stated in the Chapter "Market risk" hereunder, the Bank is exposed to market risk, including interest risk. The rise in interest had a positive impact on the income of the Bank. The average rate of Bank of Israel interest in 2023 rose by 3.3% in relation to the corresponding period last year. Most of the increase in net interest income is explained by the rise in margin on deposits, as detailed below, stemming from the effect of the rise in the shekel and dollar interest, which was partly offset by the change in the mix of deposits by the public, due to a transition from current account deposits, which bear no interest, to other interest-bearing channels. Continuation of the said trend is expected, according to Bank estimates, to cause a decline in the interest margin of deposits and in the net interest income of the Bank. The Bank's estimates with respect to the expected changes in net interest income in the coming quarters comprise "forward-looking information" that is, inter alia, affected by the interest environment, the level of inflation, volume of operations and customer preferences.

The following Table shows the development of net interest income, according to regulatory segments of operation (in NIS millions):

	Margin(1) on extending credit	Margin(1) on receiving deposits	Other(2)	Total	Margin(1) on extending credit	Margin(1) on receiving deposits	Other(2)	Total
	For the year ended December 31, 2023				For the year ended December 31, 2022			
Households	**1,088**	**1,518**	**128**	**2,734**	1,144	545	31	1,720
Private banking	**1**	**125**	**2**	**128**	1	69	-	70
Small and minute businesses	**546**	**535**	**67**	**1,148**	601	226	18	845
Middle market businesses	**185**	**108**	**31**	**324**	177	52	8	237
Large businesses	**433**	**130**	**110**	**673**	332	59	22	413
Institutional bodies	**10**	**192**	**6**	**208**	11	109	1	121
Financial management	**-**	**-**	**(249)**	**(249)**	-	-	397	397
Total interest income, net	**2,263**	**2,608**	**95**	**4,966**	2,266	1,060	477	3,803
Margin from operations (%)	**1.9%**	**1.5%**			2.1%	0.7%		
Bank of Israel interest (average)				**4.51%**				1.25%

(1) The financial margin is computed as the gap between the interest paid or received and the average cost of money to the Bank, derived from the average maturity matching the credit terms or deposit terms in the relevant linkage segments and calculated according to an internal model. Therefore, it should be taken into consideration, when performing a comparison between the Bank's margins and the margins of other banking entities.

(2) Including asset and liability management operations.

In relation to the rise in inflation, the Bank is exposed to the CPI in a way in which it has a surplus of CPI linked assets over linked liabilities in an amount of NIS 7.2 billion, as of December 31, 2023, as compared to NIS 5.0 billion, at the end of December 2022. The rise in the CPI has contributed an amount of NIS 225 million to the income of the Bank in 2023, as compared to NIS 237 million in 2022.

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 2,172 million, as compared to NIS 1,667 million in 2022, an increase of 30.3%.

The return of net profit to the capital attributed to the shareholders of the Bank amounted to 19.7%, as compared to 16.6% in 2022.

Net profit attributed to the shareholders of the Bank, in the fourth quarter of 2023, amounted to NIS 499 million, compared with NIS 536 million in the fourth quarter of 2022, a decrease of 6.9%.

The return of net profit to the capital attributed to the shareholders of the Bank in the fourth quarter of the year amounted to 17.0% compared with 20.7% in the corresponding quarter last year.

CONDENSED STATEMENT OF INCOME

	Year ended December 31		
	2023	**2022**	**change**
		NIS million	in %
Net financing earnings (1)	**5,108**	3,916	30.4
Expenses from credit losses	**502**	123	308.1
Net financing earnings after expenses from credit losses	**4,606**	3,793	21.4
Fees and other income	**1,510**	1,498	0.8
Operating and other expenses	**2,877**	2,755	4.4
Profit before taxes	**3,239**	2,536	27.7
Provision for taxes on profit	**1,090**	884	23.3
The bank's share in profit of equity-basis investee, after taxes	**113**	74	52.7
Net profit:			
Before attribution to non-controlling interests	**2,262**	1,726	31.1
Attributed to non-controlling interests	**(90)**	(59)	52.5
Attributed to shareholders of the Bank	**2,172**	1,667	30.3
Net return of equity attributed to the Bank’s shareholders	**19.7%**	16.6%	

(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	
	2023	2022
		NIS million
Interest income	**9,850**	5,161
Interest expenses	**4,884**	1,358
Net interest income	**4,966**	3,803
Non-interest financing income	**142**	113
Net financing earnings	**5,108**	3,916
Elimination of non-current activities:		
Reconciliations to fair value of derivative instruments	**-**	(5)
Losses from realization and reconciliations to fair value of bonds	**(101)**	(31)
Earnings (losses) from investments in shares	**58**	(64)
Total non-current activities	**(43)**	(100)
Financing earnings from current activity [(1)]	**5,151**	4,016

(1) Of which: in respect of changes in the CPI- an income in the amount of NIS 225 million in the year 2023, compared with NIS 237 million in the year 2022.

(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 5,151 million, as compared to NIS 4,016 million in 2022, an increase of 28.3%. The increase stemmed from the effect of the increase in the Shekel and Dollar interest rates 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	
	2023	2022
		Percent
Income rate on assets bearing interest	**5.45**	3.16
Expense rate on liabilities bearing interest	**3.74**	1.40
Total interest spread	**1.71**	1.76
Ratio of net interest income to balance of assets bearing interest	**2.75**	2.33

In the year 2023, an increase occurred in the ratio of net interest income to the balance of interest-bearing assets, compared with 2022, in a rate of 0.42%. The raise derived from an increase in net interest income, mainly due to a raise in the rates of the Shekel interest and Dollar interest.

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 502 million in 2023 compared to NIS 123 million in 2022, an increase of NIS 379 million, deriving from the collective provision for credit losses.

In 2023, the expenses in respect of credit losses derived from an increase in the collective expense for credit losses, in the amount of NIS 337 million, due to adjustments of the collective provision for credit losses, in light of the uncertainty in the economic conditions, inter alia, due to the possible implications of the state of war in which the State of Israel is in, the increase in interest rates and the possibility for economic slowdown. The specific provision amounted to an income of NIS 3 million in 2023, compared with an income of NIS 45 million in 2022.

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	
	2023	**2022**
		NIS million
Individual expense from credit losses	**115**	94
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(118)**	(139)
Net individual income from credit losses	**(3)**	(45)
Collective expense from credit losses	**505**	168
Total Expense from credit losses	**502**	123
Of which:		
Expense in respect of commercial credit	**314**	81
Expense in respect of housing credit	**40**	25
Expense in respect of other private credit	**148**	17
Ratio of individual income from credit losses to average total credit to the public	**-**	(0.04%)
Ratio of collective expense from credit losses to average total credit to the public	**0.42%**	0.15%
Ratio of total expense from credit losses to average total credit to the public	**0.42%**	0.11%

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

Fees income totaled NIS 1,502 million in 2023, compared with NIS 1,489 million in 2022, an increase of 0.9%.

Set out below are details of fees income:

	Year ended December 31	
	2023	**2022**
		NIS million
Account management	**211**	214
Credit cards	**130**	128
Transactions in capital market	**738**	744
Conversion differentials	**213**	195
Fees from financing transactions	**100**	98
Other Fees	**110**	110
Total Fees	**1,502**	1,489

Operating and other expenses totaled NIS 2,877 million in 2023 compared with NIS 2,755 million in 2022, an increase of 4.4%.

Set out below are details of operating and other expenses:

	Year ended December 31	
	2023	**2022**
		NIS million
Salaries and related expenses	**1,746**	1,680
Maintenance and depreciation of premises and equipment	**341**	332
Amortization of intangible assets	**122**	113
Other expenses	**668**	630
Total operating and other expenses	**2,877**	2,755

Salaries and related expenses totaled NIS 1,746 million in 2023 compared with NIS 1,680 million in 2022, an increase of 3.9%. The increase in the expenses of salaries derived mainly from an increase in the current salary.

Maintenance and depreciation of buildings and equipment expenses amounted to NIS 341 million in comparison to NIS 332 million in 2022, an increase of 2.7%.

Amortization of intangible assets amounted to NIS 122 million in 2023, compared with NIS 113 million in 2022, an increase of 8.0%, stemming from an increase in the volume of investment in software assets.

Other expenses totaled NIS 668 million in 2023 compared with NIS 630 million in 2022, an increase of 6.0%, stemming mainly from an increase in computer expenses and advertising and marketing expenses.

The provision for taxes on operating earnings amounted to NIS 1,090 million in 2023 compared with NIS 884 million in 2022. The effective tax rate amounted to 33.7% in 2023, compared with 34.9% in 2022, compared with statutory tax rate of 34.2%. The effective tax rate was affected from tax income in respect of previous years.

The Bank’s share in the operating earnings of investee company after the tax effect amounted in 2023 to NIS 113 million, compared to NIS 74 million in 2022. The increase stems mainly from the gain due to the completion of the sale transaction of ICC's building.

The total comprehensive profit attributed to the shareholders of the Bank amounted in 2023 to NIS 2,320 million. This amount was affected by the net profit for the year attributed to the shareholders of the Bank of NIS 2,172 million, by other comprehensive income in respect adjustments of available-for-sale bonds in an amount of NIS 132 million of other comprehensive profit in respect of employees' benefits in an amount of NIS 16 million.

For details of income and expenses by quarters for the years 2022 and 2023 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:

				2023				2022
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Costs in respect of wages and related expenses	**40**	**-**	**-**	**40**	39	-	-	39
Outsourcing costs	**3**	**-**	**-**	**3**	4	-	-	4
Costs of acquisitions or usage licenses	**90**	**-**	**-**	**90**	85	-	-	85
Costs of equipment, buildings and land	**-**	**26**	**-**	**26**	-	20	-	20
Total	**133**	**26**	**-**	**159**	128	20	-	148

Balances of assets in respect of the information technology system:

				December 31, 2023				December 31, 2022
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Total depreciated cost	**324**	**65**	**2**	**391**	311	62	2	375
Of which: in respect of wages and related expenses	**107**	**-**	**-**	**107**	107	-	-	107

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

	Year 2023				Year 2022			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Expenses in respect of wages and related expenses	**227**	**3**	**-**	**230**	212	3	-	215
Expenses in respect of acquisitions or usage licenses not discounted to assets	**76**	**-**	**-**	**76**	65	-	-	65
Outsourcing expenses	**34**	**20**	**-**	**54**	27	19	-	46
Depreciation expenses	**120**	**23**	**-**	**143**	111	23	-	134
Other expenses	**-**	**1**	**35**	**36**	-	2	32	34
Total	**457**	**47**	**35**	**539**	415	47	32	494

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, 2023 amounted to NIS 221,593 million compared with NIS 195,955 million as of December 31, 2022, an increase of 13.1%.

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

	December, 31		
	2023	**2022**	**Change**
		NIS million	%
Credit to the public, net	**117,622**	115,961	1.4
Securities	**26,985**	16,010	68.6
Cash and deposits with banks	**68,866**	57,130	20.5
Deposits from the public	**191,125**	168,269	13.6
Bonds and subordinated capital notes	**4,767**	4,749	0.4
Capital attributed to the shareholders of the Bank	**12,071**	10,559	14.3

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

	December, 31		
	2023	**2022**	**Change**
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**141**	572	(75.3)
Guarantees and other liabilities	**9,296**	10,860	(14.4)
Unutilized credit lines for derivatives instruments	**2,617**	3,303	(20.8)
Unutilized revolving credit and other on-call credit facilities	**11,245**	11,672	(3.7)
Unutilized credit lines for credit card facilities	**10,337**	9,396	10.0
Facilities for the lending of securities	**853**	595	43.4
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**10,475**	7,429	41.0
Total	**44,964**	43,827	2.6

Derivative financial instruments:

	December 31, 2023			December 31, 2022		
	Positive fair value	**Negative fair value**	**Face value**	**Positive fair value**	**Negative fair value**	**Face value**
						NIS million
Interest contracts	**361**	**242**	**17,643**	519	301	21,741
Currency contracts	**1,102**	**1,355**	**84,419**	1,003	719	66,898
Contracts in respect of shares	**2,186**	**2,185**	**62,168**	1,301	1,300	55,142
Commodities and other contracts	**2**	**2**	**157**	2	2	132
Total	**3,651**	**3,784**	**164,387**	2,825	2,322	143,913

Credit to the public, net as of December 31, 2023 amounted to NIS 117,622 million compared with NIS 115,961 million as of December 31, 2022, an increase of 1.4%.

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

	December, 31				Segment's share of credit to the public on December, 31	
	2023	2022		Change	2023	2022
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**95,191**	95,804	(613)	(0.6)	**80.9**	82.6
- CPI-linked	**15,366**	14,095	1,271	9.0	**13.1**	12.2
Foreign currency (including f-c linked)	**6,477**	5,342	1,135	21.2	**5.5**	4.6
Non-monetary items	**588**	720	(132)	(18.3)	**0.5**	0.6
Total	**117,622**	115,961	1,661	1.4	**100.0**	100.0

Gross Credit to the public by segments of activity

	December, 31		
	2023	2022	Change
		NIS million	%
Large business segment	**35,245**	27,784	26.9
Medium business segment	**7,442**	8,192	(9.2)
Small and minute business segment	**18,093**	20,019	(9.6)
Household segment excluding housing loans	**22,181**	23,571	(5.9)
Housing loans	**35,450**	35,474	(0.1)
Private banking segment	**98**	97	1.0
Institutional entities	**731**	2,019	(63.8)
Total	**119,240**	117,156	1.8

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 162,564 million on December 31, 2023 compared with NIS 159,471 million on December 31, 2022, an increase of 1.9%.

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

Sector	December 31, 2023		December 31, 2022		
	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)	**24,613**	**15.1**	22,654	14.2	8.6
Construction and real estate	**25,125**	**15.5**	24,876	15.6	1.0
Industry	**10,611**	**6.5**	11,379	7.1	(6.7)
Commerce	**9,895**	**6.1**	9,953	6.2	(0.6)
Private customer, including housing loans	**76,797**	**47.2**	74,721	46.9	2.8
Others	**15,523**	**9.6**	15,888	10.0	(2.3)
Total	**162,564**	**100.0**	159,471	100.0	1.9

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):

		December 31, 2023			
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	**1,190**	**290**	**1,480**	**672**
2.	Financial services	**1,360**	**25**	**1,385**	**218**
3.	Financial services	**1,131**	**4**	**1,135**	**1,135**
4.	Financial services	**195**	**701**	**896**	**896**
5.	Financial services	**741**	**124**	**865**	**432**
6.	Financial services	**816**	**22**	**838**	**34**

		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

* 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, 2023, 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 20% of total credit risk, and credit amounts of over NIS 20 million accounted for 37% 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, 2023					
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	**5,575**	**2,662**	**8,237**	**2,773**	**5,464**	**13**
From 800,000 to 1,200,000	**3,684**	**851**	**4,535**	**1,237**	**3,298**	**5**
From 1,200,000 to 1,600,000	**2,550**	**315**	**2,865**	**1,975**	**890**	**2**
Total	**11,809**	**3,828**	**15,637**	**5,985**	**9,652**	**20**

	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

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 26,985 million compared with NIS 16,010 million at the end of 2022, an increase of 68.6%.

Set out below is the composition of the securities portfolio:

	December 31,		Share of total securities	
	2023	2022	2023	2022
		NIS million		%
Government bonds	**25,304**	14,691	**93.8**	91.7
Banks' bonds (1)	**956**	655	**3.5**	4.1
Other bonds (corporate)	**182**	219	**0.7**	1.4
Shares (2)	**543**	445	**2.0**	2.8
Total	**26,985**	16,010	**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 shares and ETF and investment in hedging funds.

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

	December, 31				Segment's share of total securities	
	2023	2022		change	2023	2022
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**10,434**	6,806	3,628	53.3	**38.7**	42.5
- CPI-linked	**1,874**	1,193	681	57.1	**6.9**	7.5
Foreign currency denominated & linked	**14,134**	7,566	6,568	86.8	**52.4**	47.2
Non-monetary items	**543**	445	98	22.0	**2.0**	2.8
Total	**26,985**	16,010	10,975	68.6	**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, 2023:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**315**	**45**	**183**	**543**
Local currency government bonds	**11,819**	**-**	**-**	**11,819**
Local currency corporate bonds	**406**	**83**	**-**	**489**
Foreign-currency and f-c linked bonds	**29**	**14,105**	**-**	**14,134**
Total	**12,569**	**14,233**	**183**	**26,985**
% of portfolio	**46.6**	**52.7**	**0.7**	**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, by country/continent:

	December, 31	
	2023	2022
		NIS million
Israel (incl. Israel Government - NIS 3,078 million, 31.12.22 - NIS 3,454 million)	**3,189**	3,495
USA (incl. US Government - NIS 10,407 million, 31.12.22 - NIS 3,683 million)	**10,647**	3,791
Canada	**79**	106
Far East, Australia and others (3 country; 31.12.22 - 1 country)	**144**	38
Europe - others (3 countries; 31.12.22 - 5 countries)	**75**	109
Total	**14,134**	7,566

It should be noted that there is no issuer (except the Israel and US Governments) whose bond balance exceeds 0.5% of the shareholders' equity of the Bank.

Bonds denominated in or linked to foreign currency - amounting to NIS 14,134 million (Dollar 3,897 million) (mainly foreign currency denominated Israel Government bonds amounting to NIS 3,078 million, and bonds of US Government amounting to NIS 10,407 million). All of the foreign bonds are investment grade and of which 99% is rated A or higher. This portfolio is diversified, in a manner whereby exposure to any single issuer (excluding governments) does not exceed 0.4% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 1 year. 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 8 million (Dollar 2 million) compared with losses of NIS 17 million (Dollar 5 million) on December 31, 2022.

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

	December, 31	
	2023	2022
		NIS million
Electricity and water	**23**	44
Construction and real estate	**26**	35
Financial services	**20**	23
Banks	**381**	295
Industry	**10**	12
Transportation	**29**	36
Total	**489**	445

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, 2023 amounted to NIS 123 million (NIS 74 million after the tax effect).
As of February 29, 2024, the balance of gross losses amounted to NIS 140 million (NIS 86 million after the tax effect).

Cash and deposits at banks on December 31, 2023 totaled NIS 68,866 million compared with NIS 57,130 million at the end of 2022, an increase of 20.5%.

Deposits from the public on December 31, 2023 totaled NIS 191,125 million compared with NIS 168,269 million at the end of 2022, an increase of 13.6%.

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

	December, 31				Segment's share of total deposits from the public on December, 31	
	2023	2022		Change	2023	2022
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**150,675**	130,157	20,518	15.8	**78.8**	77.4
- CPI-linked	**5,614**	5,990	(376)	(6.3)	**3.0**	3.5
Foreign currency denominated & linked	**34,248**	31,402	2,846	9.1	**17.9**	18.7
Non-monetary items	**588**	720	(132)	(18.3)	**0.3**	0.4
Total	**191,125**	168,269	22,856	13.6	**100.0**	100.0

Deposits from the public by segments of activity

	December, 31		
	2023	2022	Change
		NIS million	%
Large business	**20,831**	17,753	17.3
Medium business	**7,818**	6,834	14.4
Small and minute business	**26,560**	27,325	(2.8)
Household	**72,207**	68,122	6.0
Private banking	**11,733**	10,430	12.5
Institutional entities	**51,976**	37,805	37.5
Total	**191,125**	168,269	13.6

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, 2023, amounted to NIS 481 billion, as compared to NIS 392 billion at the end of 2022, an increase of 22.7%.
Bonds and deferred debt notes amounted at the end of the year to NIS 4,767 million, as compared with NIS 4,749 million at December 31, 2022.

For details regarding assets and liabilities according to quarters in the years 2022 and 2023, 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, 2023 to NIS 12,071 million, as compared with NIS 10,559 million on December 31, 2022, an increase of 14.3%.

The change in capital attributed to the shareholders of the Bank was affected by the net profit for the period amounting to NIS 2,172 million, by other comprehensive income in respect of adjustments of available-for-sale bonds in an amount of NIS 132 million and by other comprehensive income in respect of employees' benefits in an amount of NIS 16 million. On the other hand, a decrease in capital occurred due to dividends paid in the amount of NIS 798 million, and from the initial implementation of accepted accounting standards in the US, in respect of anticipated credit losses in investee company, in the amount of NIS 10 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.

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. It should be noted that in accordance to the provisional instruction dated April 27, 2020, the requirement would not apply in respect of residential loans granted from March 19, 2020 until the end of the provisional instruction (September 30, 2021).

On December 27, 2021, in the framework of amending 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, 2023, 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.
- 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 2023 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 9.35%, 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.

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 and takes into consideration the possible effects of the war.

For detailed information, see the risk report for 2023 on the Bank's website.

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.

The volume of the efficiency measures in manpower, as from the years 2018 and 2020, in respect of which the reliefs are applicable, amounted to NIS 118 million, net after tax.

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, 2023 to be lower by 0.02% on Tier 1 equity capital.

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 0.02% in the capital adequacy ratios as of December 31, 2023.

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 0.22% and 0.29% in the Tier 1 capital ratio and the comprehensive capital ratio, respectively, as of December 31, 2023.

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 possible effects of the war were included in the process. The ICAAP document relating to the data as of September 30, 2023, has been carried out as requested. 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,	
		2023	2022
1.	Capital for calculation of capital ratio, after deduction and supervisory adjustments (in NIS millions)		
	Tier 1 capital, after deductions and supervisory adjustments	**12,292**	10,802
	Tier 2 capital after deductions	**3,569**	3,448
	Total capital	**15,861**	14,250
2.	Weighted balances of risk assets (in NIS millions)		
	Credit risk	**97,053**	94,786
	Market risk	**886**	789
	Operational risk	**10,360**	8,061
	Total weighted balances of risk assets	**108,299**	103,636
3.	Ratio of capital to risk assets (in %)		
	Raito of Tier 1 equity capital to risk assets	**11.35%**	10.42%
	Total ratio of comprehensive capital to risk assets	**14.65%**	13.75%
	Minimal ratio of equity capital Tier 1 required by the Supervisor of banks	**9.24%**	9.24%
	Minimal ratio of comprehensive capital required by the Supervisor of Banks	**12.50%**	12.50%

The Tier I equity capital ratio as of December 31, 2023, amounted to 11.35%, in comparison with 10.42% on December 31, 2022. The ratio of comprehensive capital to risk components as of December 31, 2023, amounted to 14.65%, in comparison with 13.75% on December 31, 2022.

The comprehensive capital as of December 31, 2023 amounted to NIS 15,861 million, in comparison with NIS 14,250 million on December 31, 2022, an increase of 11.3%.

The capital base was affected on the one hand, by profits of NIS 2,172 million, from an increase in instruments issued by the Bank, which are qualified for inclusion in the supervisory capital in the amount of NIS 81 million, from an increase in the collective provision for credit losses, qualified for inclusion in the supervisory capital tier 2 in the amount of NIS 40 million, from other comprehensive profit in respect of stating available-for-sale bonds at market value in an amount of NIS 132 million and by other comprehensive profit of NIS 16 million, in respect of employee benefits. On the other hand, this increase was offset by a dividend distribution of NIS 798 million.

The risk assets as of December 31, 2023 amounted to NIS 108,299 million as compared with NIS 103,636 million on December 31, 2022, an increase of 4.5%, derived mainly from the increase in the credit to the public and from an increase in the operational risk due to the increase in income.

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,	
	2023	2022
		%
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**18.06%**	15.12%
Ratio of overall capital to risk assets	**19.16%**	16.25%

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). 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.
In accordance with a letter amending Proper Conduct of Banking Business Directive No. 250, dated December 20, 2023, the relief will be valid until December 31, 2025. Banking corporation which will make use of the relief on December 31, 2025, will be required to return to the leverage ratio prevailing before the provisional instruction within two quarters, thus, at the end of the validity of the provisional instruction, the leverage ratio of the banking corporation will not be less than the actual minimal leverage ratio or the minimal leverage ratio applying to the banking corporation prior to the Provisional Instruction, whichever is lower.
The leverage ratio of the Bank as of December 31, 2023, amounts to 5.26%, compared to 5.19% as of December 31, 2022.

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.
On November 12, 2023, a letter from the Supervisor of Banks addressed to the banking system, in the matter of “Capital planning and earnings distribution policy”, was received. According to the letter, the banking entities have to re-examine their dividend policy for the upcoming period on the background of the war and the increasing uncertainty in respect of its continuity and the volume of its impact on the economy.
On March 5, 2024, the Supervisor of Banks published additional letter addressed to the Banking systems in the matter, according to which, the banking entities have to re-examine their dividend distribution policy for the upcoming period on the background of the continuance of the war and the volume of its impact on the economy, which call for extra caution in the matter.
Taking into consideration the abovementioned letters of the Supervisor, and on background of the uncertainty level prevailing in the markets in Israel due to the war, as well as the continuing level of uncertainty in the markets worldwide (among other, as mentioned in the chapter of leading and developing risks, macroeconomic risk and the effect of the Swards of iron war), the Board of Directors of the Bank decided on March 12, 2024, to approve a dividend distribution in cash to the shareholders of the Bank in a total amount of NIS 269 million (gross), comprising, with the dividends distributed in the previous three quarters, approx. 50% of the net earnings of the Bank for the first half of 2023 and 20% of net earnings of the second half of 2023.
It is clarified, that no change has occurred in the dividend distribution policy of the Bank, and it remained unchanged. The Board of Directors of the Bank will continue to discuss the implementation of the dividend distribution policy of the Bank, in respect of the developments and their effect on the economy and on the Bank.
The ex-dividend date was fixed for March 20, 2024, and payment of the dividend shall be made on March 31, 2024. The amount of the dividend is before any tax, including tax which the Bank has to withhold according to the law.

Following are details regarding dividends distributed by the Bank, as from the year 2022:

Declaration date	Payment date	**Total dividend paid**	**Dividend per share**
		NIS million	NIS
January 6, 2022	January 24, 2022	215	2.14
March 7, 2022	March 24, 2022	165	1.65
May 24, 2022	June 12, 2022	160	1.59
August 24, 2022	September 1, 2022	170	1.70
November 22, 2022	December 8, 2022	235	2.34
March 21, 2023	April 4, 2023	268	2.67
May 17, 2023	June 1, 2023	220	2.19
August 15, 2023	August 31, 2023	220	2.19
November 28, 2023	December 14, 2023	90	0.90

SUPERVISORY SEGMENTS OF ACTIVITY

The reporting on segments of activity is in accordance with the format and classification set in the Directive of the Reporti ng 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,	
	2023	2022	Change	2023	2022
		NIS million	%		%
Large business segment	**844**	569	48.3	**12.8**	10.5
Medium business segment	**398**	312	27.6	**6.0**	5.8
Small and minute business segment	**1,514**	1,227	23.4	**22.9**	22.7
Household segment	**3,338**	2,330	43.3	**50.4**	43.0
Private banking segment	**223**	158	41.1	**3.4**	2.9
Institutional entities	**417**	318	31.1	**6.3**	5.9
Financial management segment	**(116)**	500		**(1.8)**	9.2
Total	**6,618**	5,414	22.2	**100.0**	100.0

b. Net earnings attributed to the shareholders of the bank

	For the year ended December 31,	
	2023	2022
		NIS million
Large business segment	**359**	230
Medium business segment	**140**	99
Small and minute business segment	**419**	339
Household segment	**1,015**	510
Private banking segment	**85**	52
Institutional entities	**139**	91
Financial management segment	**15**	346
Total	**2,172**	1,667

* Including net interest income and non-interest income.

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, 2023				For the year ended December 31, 2022			
	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	**1,148**	**324**	**673**	**2,145**	845	237	413	1,495
Non-interest income	**366**	**74**	**171**	**611**	382	75	156	613
Total income	**1,514**	**398**	**844**	**2,756**	1,227	312	569	2,108
Expenses from credit losses	**189**	**57**	**68**	**314**	24	42	13	79
Operating and other expenses	**682**	**127**	**232**	**1,041**	674	113	201	988
Net profit attributed to the shareholders of the Bank	**419**	**140**	**359**	**918**	339	99	230	668
Average balance of credit to the public	**19,343**	**7,588**	**32,256**	**59,187**	21,502	7,291	23,381	52,174
Balance of credit to the public at the end of the reported period	**18,093**	**7,442**	**35,245**	**60,780**	20,019	8,192	27,784	55,995
Average balance of deposits from the public	**26,038**	**6,411**	**16,140**	**48,589**	26,987	6,864	17,339	51,190
Balance of deposits from the public at the end of the reported period	**26,560**	**7,818**	**20,831**	**55,209**	27,325	6,834	17,753	51,912

Main changes in the result of activity in the year 2023 compared with the year 2022

Total net interest income amounted to NIS 2,145 million, compared with NIS 1,495 million in 2022, an increase of 43.5%. 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 611 million, compared with NIS 613 million in 2022, a decrease of 0.3%.

Expenses in respect of credit losses amounted to NIS 314 million, compared with NIS 79 million in 2022. The increase is explained by the increase in the collective provision for credit losses, mainly due to adjustments in respect of the concern from anticipated macroeconomic effects, in light of the uncertainty in the economic condition, inter alia, due to the implications deriving from the state of war the State of Israel is in, the effects of the increase in the interest rates, locally and over the world and the proba bility of an economic slowdown.

Operating and other expenses amounted to NIS 1,041 million, compared with NIS 988 million in 2022, an increase of 5.4%, derived mainly from an increase in payroll expenses, mainly due to a raise in the current salary.

The net profit attributed to the shareholders of the Bank in respect of the business segments, amounted to NIS 918 million, in comparison with NIS 668 million in 2022. The increase in the net profit is mainly explained by an increase in net interest income, partially offset by the increase in the provision for credit losses and by an increase in other operating expenses, as detail ed above.

Average balance of credit to the public amounted to NIS 59,187 million, in comparison with NIS 52,174 million in 2022, an increase of 13.4%.

Credit to the public as of December 31, 2023 amounted to NIS 60,780 million, in comparison with NIS 55,995 million on December 31, 2022, an increase of 8.5%.

Average balance of deposits from the public amounted to NIS 48,589 million, in comparison with NIS 51,190 million in 2022, a decrease of 5.1%.

Deposits from the public as of December 31, 2023 amounted to NIS 55,209 million, in comparison with NIS 51,912 million on December 31, 2022, an increase of 6.4%.

PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLD AND PRIVATE BANKING

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

	For the year ended December 31, 2023			For the year ended December 31, 2022		
	Households segment	private banking segment	Total	Households segment	private banking segment	Total
						NIS million
Net interest income	**2,734**	**128**	**2,862**	1,720	70	1,790
Non-interest income	**604**	**95**	**699**	610	88	698
Total income	**3,338**	**223**	**3,561**	2,330	158	2,488
Expenses from credit losses	**187**	**1**	**188**	41	1	42
Operating and other expenses	**1,492**	**91**	**1,583**	1,440	76	1,516
Net profit attributed to the shareholders of the Bank	**1,015**	**85**	**1,100**	510	52	562
Average balance of credit to the public	**57,310**	**83**	**57,393**	56,656	111	56,767
Balance of credit to the public at the end of the reported period	**57,631**	**98**	**57,729**	59,045	97	59,142
Average balance of deposits from the public	**69,253**	**10,852**	**80,105**	66,606	9,781	76,387
Balance of deposits from the public at the end of the reported period	**72,207**	**11,733**	**83,940**	68,122	10,430	78,552

Main changes in the result of activity in the year 2023 compared with the year 2022

Total net interest income amounted to NIS 2,862 million, as compared with NIS 1,790 million in 2022, an increase of 59.9%. This increase is mainly explained by the raise in the interest rates.

Non-interest income amounted to NIS 699 million, compared with NIS 698 million in 2022.

Expense in respect of credit losses amounted to NIS 188 million, compared with an income of NIS 42 million in 2022. The increase is explained by the increase in the collective provision for credit losses, mainly due to adjustments in respect of the concern from anticipated macroeconomic effects, in light of the uncertainty in the economic condition, inter alia, due to the implications deriving from the state of war the State of Israel is in, the effects of the increase in the interest rates, locally and over the world and the probability of an economic slowdown.

Operating and other expenses amounted to NIS 1,583 million, as compared to NIS 1,516 million in 2022, an increase of 4.4%, derived mainly from an increase in payroll expenses, mainly due to a raise in the current salary.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment amounted to NIS 1,100 million, compared with NIS 562 million in 2022. The increase in the net profit is mainly explained by an increase in net interest income, partially offset by the increase in the provision for credit losses and by an increase in other operating expenses, as detailed above.

Average balance of credit to the public amounted to NIS 57,393 million, in comparison with NIS 56,767 million in 2022, an increase of 1.1%.

Credit to the public as of December 31, 2023 amounted to NIS 57,729 million, in comparison with NIS 59,142 million on December 31, 2022, a decrease of 2.4%.

Average balance of deposits from the public amounted to NIS 80,105 million, in comparison with NIS 76,387 million in 2022, an increase of 4.9%.

Deposits from the public as of December 31, 2023 amounted to NIS 83,940 million, in comparison with NIS 78,552 million on December 31, 2022, an increase of 6.9%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 15 million compared with NIS 346 million in 2022.

Following are the main factors that affected the change in net profit:

- Decrease in net interest income in the amount of NIS 646 million, deriving mainly from duration differences between sources and uses and from the increase in interest in which the customers' segments are credited in respect of the capital attributed to them.
- Increase in losses from realization and from adjustments to fair value of bonds in the amount of NIS 70 million.
- Increase in gains from investments in shares in the amount of NIS 120 million.
- Increase in the share of the Bank in the profit of investee company in the amount of NIS 39 million.

Total income from trading activity attributed to the sector, amounted to NIS 88 million. Total interest income (Note 2 to the financial statements) and non interest financing income (note 3 to the financial statements), in respect of trading activity, amounted to NIS 96 million. The difference of NIS 8 million derives from income in activity in trading purposes derivative instruments, which are not attributed to this sector.

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 598 million on December 31, 2023.

Total assets of Massad on December 31, 2023 amounted to NIS 11,804 million compared with NIS 11,268 million on December 31, 2022, an increase of 4.8%.

Shareholders' equity of Massad on December 31, 2023, totaled NIS 1,173 million compared with NIS 972 million on December 31, 2022, an increase of 20.7%.

Net earnings of Massad totaled NIS 184.0 million in 2023, compared with NIS 120.8 million in 2022, an increase of 52.3%. The increase in net earnings is mainly explained by an increase in net interest income, affected y the raise in the Shekel interest rate. On the other hand, the earnings were affected from the increase in the expenses from credit losses, mainly due to the uncertainty and in light of the possible ramifications of the “Swards of Iron” war.

The Bank's share in Massad's operating results for 2023 amounted to NIS 93.5 million compared with NIS 61.6 million in 2022.

Net return on equity amounted to 17.0% in 2023, compared with 13.0% in 2022. The ratio of comprehensive capital to risk assets amounted to 19.16%, compared with 16.25% at the end of 2022. The Tier 1 equity capital ratio amounted to 18.06% compared with 15.12% at the end of 2022.

In the framework of the ICAAP process for the data of September 30, 2023 the minimal capital targets were set as follows: tier 1 equity capital ratio will be no less than 10.5% 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 786 million on December 31, 2023.

The ratio of comprehensive capital to risk assets amounted to 14.3%, compare with 13.5% at the end of 2022.

The Bank’s share in the net earnings of ICC before the tax effect amounted in 2023 to NIS 127.0 million compared with NIS 83.7 in 2022, an increase of 51.7%.

The increase in net earnings is explained by one-time effects as follows:

A. Recording of profit in the amount of NIS 231 million, in respect of the consummation of the sale transaction of ICC's building in Giv'ataim. The Bank's share in the said profit amounts to NIS 58 million.
   In light of the expected separation from Discount Bank, ICC Board of Directors, approved in the month of July 2023, the sale of ICC’s part in “Discount Campus” to Discount Leasing. The said transaction was not consummated yet. Upon consummation of the transaction, ICC expects to record net gain (after deductions connected to the transaction and tax effect) in an amount of NIS 20 million.
B. 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, as was detailed in the Directors report, the chapter on Principal investee companies, in the financial statements for 2022. The recording of the option, as mentioned, decreased the net earnings of ICC in the first quarter of 2023 by NIS 40 million.

On March 30, 2023, the General Meeting of Shareholders of ICC approved a dividend distribution in an amount of NIS 74 million. The Bank's share in the dividend amounted to NIS 21 million. The dividend was paid on March 31, 2023.

The Banking Regulations (Licensing) (A bank having a wide scope of operations), 2023 (hereinafter – "the Regulations") were published on January 30, 2023.

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, Discount Bank Ltd., which controls ICC, 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.

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 risk, 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:

Mrs. Liliya Kaplan, CPA - serves since November 30, 2023, as the Head of risk management division, CRO, operational risk manager, supervisor of the internal enforcement and manager of business continuity. Until this date, Mr. Eli Cohen CPA, CEO of the Bank, has served these positions.

Mr. Benzi 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.

The Strategic risk, is managed by Mrs. Shirli Shoham Klein, Head of the Advanced Banking department.

Mrs. Ziva Barak- 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.

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

Mrs. Iris Chen, manager of cyber defense and information security.

Adv. Haviva Dahan, head of the legal department - Legal Risk Manager. On January 28, 2024, Adv. Haviva Dahan announced her desire to retire. The final date will be determined in coordination with the bank.

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

g. Additional risks, amongst them regulation and legislation 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 the year 2023, reflecting also the possible effects of the increase in inflation and changes in monetary policy, the effect of which are expressed in negative rate of growth and increasing rate of unemployment. In addition, the war scenario was updated and was adjusted to the Swards if Iron war.

   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. During March 2023, a uniform scenario based on the data for September 2022, 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 exceeds the relevant limitations.

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. Within the framework of Pillar 2, the capital allocation under Pillar 1 is being challenged, and where required, a complementary capital allocation is being made in respect of credit risk.

In the interest announcement of January 2024, Bank of Israel lowered the interest rate by 0.25%, to a level of 4.5%. The high interest environment that had prevailed in the market in 2023, increases the financing expenses of households and business entities, which alongside the rise in the inflation, may aggravate the financial situation of borrowers, including customers of the Bank.

The Bank continues to follow the effects of the interest and Index rates and the fluctuation in the exchange rates, on the different activity segments and in particular, the effect on the debts repayment ability of customers of the Bank.

EFFECT OF THE "SWORDS OF IRON" WAR

Upon the outbreak of the War in October, the Bank examined the possible implications of the War on customers of the Bank in the different segments of operation, following the security situation and the volatility in currency exchange rates and in securities. Intensified follow-up is also being conducted with respect to customers who might be affected by the situation to a greater extent, and in respect of customers operating in economic segments that are more exposed to damage in the immediate time range, such as the real estate field, hotels, food and catering services, and the aviation, textiles and retail fields.

In addition, the Bank continues to support the needs of customers in this period, allowing, inter alia, deferral of customer loan repayment, including loans that had been granted by the different funds secured partly by State guarantees. As of February 29, 2024, the balance of the loans in respect of which repayments had been deferred, amounted to NIS 5,274 million, and total repayments actually deferred amounted to NIS 258 million.

Notwithstanding the above, in view of the continuous uncertainty prevailing with respect to the full implications of the War regarding the financial situation of customers, and principally regarding their ability to overcome the crisis, the Bank has increased the collective allowance.

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, 2023, problematic credit risk with all its different components, including off-balance-sheet components, totaled NIS 2,129 million compared with NIS 1,497 million at the end of 2022, an increase of 42.2%.

The ratio of problematic credit risk to total credit risk at the Group amounted to 1.3% at the end of 2023, compared with 0.9% at the end of 2022.

21.5% of problematic credit risk at the Group are attributed to the industrial sector, 17.8% to the real estate sector, 24.1% to the commercial sector and 25.7% to the private customers sector including housing loans.

The ratio of the stated problematic credit risk to total credit to the public amounted to 1.5%, compared to 1.2% at the end of 2022.

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, 2023				December 31, 2022
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
								NIS million
Credit risk in credit granting rating(1)								
Stated credit risk	**59,678**	**34,961**	**21,289**	**115,928**	56,823	34,967	22,651	114,441
Off-balance sheet credit risk	**23,015**	**2,430**	**16,682**	**42,127**	24,979	2,233	13,397	40,609
Total credit risk in credit granting rating	**82,693**	**37,391**	**37,971**	**158,055**	81,802	37,200	36,048	155,050
Credit risk not in credit granting rating:								
Non-problematic	**1,170**	**216**	**586**	**1,972**	1,342	288	640	2,270
Problematic(2)	**1,234**	**273**	**265**	**1,772**	884	220	246	1,350
Of which:								
-Problematic accruing interest	**840**	**68**	**174**	**1,082**	581	75	150	806
-Non-accruing interest	**394**	**205**	**91**	**690**	303	145	96	544
Total stated credit risk	**2,404**	**489**	**851**	**3,744**	2,226	508	886	3,620
Off-balance sheet credit risk	**670**	**-**	**95**	**765**	722	1	78	801
Total credit risk not in credit granting rating	**3,074**	**489**	**946**	**4,509**	2,948	509	964	4,421
Of which: performing debts in arrears of 90 days or more	**13**	**-**	**17**	**30**	8	-	13	21
Total overall credit risk of the public	**85,767**	**37,880**	**38,917**	**162,564**	84,750	37,709	37,012	159,471
Non-performing assets								
Non-accruing debts - not accruing interest income.	**394**	**205**	**91**	**690**	303	145	96	544

(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.

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

	For the year ended December 31, 2023			For the year ended December 31, 2022		
	Commercial	Private	Total	Commercial	Private	Total
			NIS million			NIS million
Balance of non-accruing debts at beginning of year	**303**	**241**	**544**	338	103	441
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	**295**	**257**	**552**	186	117	303
Removed from non-accruing classification	**(21)**	**(116)**	**(137)**	(12)	(55)	(67)
Accounting write-offs of non-accruing debts	**(24)**	**(28)**	**(52)**	(77)	(25)	(102)
Collection of non-accruing debts	**(159)**	**(58)**	**(217)**	(138)	(45)	(183)
Balance of non-accruing debts at end of year	**394**	**296**	**690**	303	241	544
Of which: movement in problematic restructured debts						
Balance of restructured debts at beginning of the year	**66**	**76**	**142**	67	69	136
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	**50**	**60**	**110**	49	53	102
Debts reversed into accruing classification following consequent restructure	**(18)**	**(25)**	**(43)**	(9)	(12)	(21)
Accounting write-offs of restructured debts	**(7)**	**(14)**	**(21)**	(12)	(15)	(27)
Collection of restructured debts	**(21)**	**(25)**	**(46)**	(29)	(38)	(67)
Balance of problematic restructured debts at end of year	**70**	**72**	**142**	66	76	142
Changes in provision for credit losses in respect of non-accruing debts						
Balance of provision for credit losses at the beginning of the year	**79**	**34**	**113**	129	33	162
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	**92**	**27**	**119**	60	21	81
Collection and write-offs	**(50)**	**(21)**	**(71)**	(102)	(20)	(122)
Balance of provision for credit losses at the end of the year	**121**	**40**	**161**	79	34	113

(1) The effect of the initial implementation of the Reporting to the Public directives in respect of anticipated credit losses.

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

	December 31, 2023				December 31, 2022			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
Analysis of quality of credit to the public								
Ratio of non-accruing credit to credit to the public	**0.64%**	**0.58%**	**0.41%**	**0.58%**	0.52%	0.41%	0.41%	0.46%
Ratio of non-accruing credit or in arrears of 90 days or more to credit to the public	**0.66%**	**0.58%**	**0.49%**	**0.60%**	0.53%	0.41%	0.46%	0.48%
Ratio of problematic credit to credit to the public	**2.00%**	**0.77%**	**1.20%**	**1.48%**	1.51%	0.62%	1.05%	1.15%
Ratio of credit not at credit execution rating to credit to the public	**3.90%**	**1.38%**	**3.84%**	**3.14%**	3.83%	1.43%	3.76%	3.09%
Analysis of expenses in respect of credit losses for the reporting period								
Ratio of expenses in respect of credit losses to the average balance of credit to the public	**0.52%**	**0.11%**	**0.67%**	**0.42%**	0.15%	0.07%	0.08%	0.11%
Ratio of net accounting write-offs as to the average balance of credit to the public	**-**	**0.01%**	**0.13%**	**0.03%**	0.05%	-	0.01%	0.03%
Analysis of provision for credit losses in respect of credit to the public								
Ratio of provision for credit losses to credit to the public	**1.64%**	**0.51%**	**1.94%**	**1.36%**	1.23%	0.41%	1.42%	1.02%
Ratio of provision for credit losses to the balance of non-accruing credit to the public	**255.8%**	**88.3%**	**471.4%**	**234.5%**	236.6%	100.0%	346.9%	219.7%
Ratio of provision for credit losses to the balance of credit to the public, non-accruing or in arrears of 90 days or more	**247.7%**	**88.3%**	**397.2%**	**224.7%**	230.5%	100.0%	305.5%	211.5%
Ratio of provision for credit losses to net accounting write-offs	**-**	**90.5**	**14.8**	**52.2**	26.6	(145.0)	111.0	41.2

TOTAL CREDIT RISK ACCORDING TO ECONOMIC SECTORS

(NIS million)

	as at December 31, 2023						
					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	**10,507**	**9,750**	**454**	**186**	**48**	**1**	**221**
Construction and Real estate - construction (5)	**17,189**	**16,799**	**302**	**30**	**18**	**(6)**	**190**
Construction and Real estate - real estate activities	**7,915**	**7,598**	**78**	**31**	**78**	**(4)**	**144**
Commerce	**9,831**	**9,138**	**493**	**137**	**111**	**3**	**291**
Financial services	**24,476**	**24,300**	**9**	**8**	**(6)**	**(4)**	**33**
Other business services	**15,367**	**14,689**	**221**	**60**	**58**	**10**	**241**
Total commercial (6)	**85,285**	**82,274**	**1,557**	**452**	**307**	**-**	**1,120**
Private individuals - housing loans	**37,880**	**37,391**	**273**	**205**	**40**	**2**	**189**
Private individuals - others	**38,917**	**37,971**	**275**	**92**	**148**	**29**	**463**
Total public - activity in Israel	**162,082**	**157,636**	**2,105**	**749**	**495**	**31**	**1,772**
Banks in Israel and Israeli government	**17,789**	**17,789**	**-**	**-**	**-**	**-**	**2**
Total activity in Israel	**179,871**	**175,425**	**2,105**	**749**	**495**	**31**	**1,774**
In respect of borrowers abroad							
Total public - activity abroad	**482**	**419**	**24**	**-**	**7**	**-**	**11**
Banks abroad and foreign governments	**11,900**	**11,900**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**12,382**	**12,319**	**24**	**-**	**7**	**-**	**11**
Total	**192,253**	**187,744**	**2,129**	**749**	**502**	**31**	**1,785**

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 122,014 million, NIS 26,442 million, NIS 57 million, NIS 417 million and NIS 43,323 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 140 million and off-balance sheet credit risk amounting to NIS 5 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, 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.

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 (4)	as at December 31, 2023			as at December 31, 2022*		
	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-	**204**	**2**	**206**	321	2	323
A+ to A-	**2,322**	**35**	**2,357**	2,483	35	2,518
BBB+ to BBB-	**44**	**-**	**44**	128	2	130
BB- to B-	**1**	**1**	**2**	-	1	1
Unrated	**5**	**-**	**5**	13	-	13
Total credit exposure to foreign financial institutions	(5)**2,576**	**38**	**2,614**	2,945	40	2,985

* 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) 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.
(5) Of which: total balance sheet exposure to the USA includes deposits in the amount of NIS 1,018 million, bonds in the amount of NIS 211 million and fair value of derivatives financial instruments in the amount of NIS 4 million. Most of the exposure is to the largest financial institutions in the USA.

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 316 million on December 31, 2023 (December 31, 2022 - NIS 244 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 2023, 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 (98%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 8% 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 509 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 92% are rated A- or higher.
The average duration of the portfolio is 1.7 years.
In addition, balance-sheet credit risk includes NIS 2 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of December 31, 2023, 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 2,379 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, 2023			As at December 31, 2022		
	Balance sheet exposure(2)	Off Balance sheet exposure(2)(3)	Total	Balance sheet exposure(2)	Off Balance sheet exposure(2)(3)	Total
United States	**11,821**	**41**	**11,862**	4,654	40	4,694
Other countries	**1,661**	**380**	**2,041**	2,450	317	2,767
Total exposure to foreign countries	**13,482**	**421**	**13,903**	7,104	357	7,461
Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain)	**30**	**2**	**32**	31	2	33
Off which: Total exposure to LDC countries	**171**	**42**	**213**	146	41	187
Off which: Total exposure to countries with liquidity problems	(4)**11**	**1**	**12**	(4)16	1	17

* 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,		
	2023	2022	Change
		NIS million	%
Housing loans extensions			
Loans from bank funds	**3,456**	7,124	(51.5)
Loans from Treasury funds	**12**	17	(29.4)
Grants from Treasury funds	**5**	13	(61.5)
Total new loans	**3,473**	7,154	(51.5)
Refinanced loans from bank funds	**552**	476	16.0
Total extensions	**4,025**	7,630	(47.2)

	As at December 31,		
	2023	2022	Change
		NIS million	%
Balance of housing loans, net			
Loans from bank funds	**35,406**	35,464	(0.2)
Loans from Treasury funds*	**221**	240	(7.9)
Grants from Treasury funds*	**77**	74	4.1
Total balance of housing loans	**35,704**	35,778	(0.2)

* 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, 2023 included 68% of credit granted at an LTV of up to 60%, similar to December 31, 2022. 98% of total loans were granted at an LTV of up to 75%, similar to 2022.
Housing loan extensions from the Bank's sources in 2023 included 63% of credit granted at an LTV of up to 60%, compared with 62% in 2022. All loan extensions were granted at an LTV of up to 75%, similar to 2022.
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, 2023 included 89% of credit granted at a debt-income ratio of up to 35%, compared with 90% on December 31, 2022. 99% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, similar to December 31, 2022.
Housing loan extensions from the Bank's sources in 2023 included 81% of credit granted at a debt-income ratio of up to 35% as compared to 88% in 2022. All of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% similar to 2022.
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, 2023 includes 59% of credit that was granted at floating-rate interest and amounts to NIS 21,145 million.
Housing loan extensions from the Bank's sources in 2023 include NIS 1,309 million of credit granted at floating-rate interest of up to five years constituting 38% of extensions. An amount of NIS 656 million is at floating-rate interest changing every five years and over, constituting 19% of extensions.

Long-term loans

The portfolio of housing loans from the Bank's sources as of December 31, 2023 includes 73% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 25,791 million.
Housing loan extensions from the Bank's sources in 2023 include 46% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 1,592 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
31.12.23	**10,079**	**29.3**	**14,828**	**43.1**	**3,935**	**11.4**	**5,593**	**16.2**	**5**	**-**	**34,440**	**966**	**34,406**
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

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

	2023	2022	2021
Total housing loan extensions (NIS million)	**3,456**	7,124	8,005
Rate of change in housing loan extensions compared with previous year	**(51.5%)**	(11.0%)	35.3%
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**0.12%**	0.08%	(0.02%)
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.54%**	0.43%	0.50%

Effect of the "Swords of Iron" War on housing loans credit

On background of the War, and in order to assist Bank customers, the Bank has formed an outline that includes alleviations regarding credit and commissions applying to particular customers, including deferral of mortgage payments in addition to exemption from payments. For details, see the effect of the "Swords of Iron" War, above.

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' segment in Otsar Hahayal branches are salaried employees, large part of them are former employees of the defense forces.

In May 2023, the Bank was successful in a tender for the provision of credit and banking services to the defense system personnel for a period of seven years, starting on December 1, 2023, together with an option for extension of the period for three additional years. The tender stated, inter alia, the terms for the granting of credit and for the management of accounts for the defense system personnel, as well as the terms for operating Bank branches at IDF bases. These loan repayments and additional loans granted to the defense forces population and loans granted in the framework of factory/ sectors agreements are repaid by the direct withholding from salary. Winning the tender provides the Bank with business opportunities for extending its operations among the tender's population and for increasing its share of additional populations.

85% 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.

Effect of the "Swords of Iron" War on credit to private individuals

On background of the War, and in order to assist Bank customers, the Bank has formed an outline that includes alleviations regarding credit and commissions applying to particular customers, including deferral of loan payments, as well as the extension of interest and linkage free loans up to an amount of NIS 20 thousand, for a period of two years. Furthermore, designated funds have been established a for the granting of interest free loans. For details, see the effect of the "Swords of Iron" War, above.

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

	December 31,		
	2023	**2022**	**change**
		NIS million	%
Current account and utilized balances of credit cards	**5,455**	5,747	(5.1)
Other loans	**16,684**	17,786	(6.2)
Total stated credit risk	**22,139**	23,533	(5.9)
Unutilized current account credit lines	**5,073**	4,791	5.9
Unutilized credit lines in credit cards	**8,739**	7,954	9.9
Other off-balance credit risks	**2,947**	710	315.1
Total off-balance credit risk	**16,759**	13,455	24.6
Total credit risk	**38,898**	36,988	5.2
Average volume of credit, including overdrafts, credit cards and loans	**21,943**	22,297	(1.6)

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

	December 31,		
	2023	**2022**	**change**
		NIS million	%
Non-accruing credit risks	**92**	98	(6.1)
Accruing problematic credit risk	**183**	157	16.6
Performing credit risk	**38,623**	36,733	5.1
Total credit risk	**38,898**	36,988	5.2
Of which: performing debts in arrears of 90 days or more	**17**	13	30.8
Balance of restructured debts out of the problematic credit	**94**	89	5.6
Ratio of credit loss expense to total credit to the public	**0.67%**	0.07%	

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

	December 31, 2023			
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	**171**	**25**	**196**	**200**
Up to 10	**2,783**	**335**	**3,118**	**2,438**
From 10 to 20	**4,709**	**1,189**	**5,898**	**3,967**
Over 20	**7,525**	**5,402**	**12,927**	**10,154**
Total	**15,188**	**6,951**	**22,139**	**16,759**

	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	Balance sheet 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

* 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, 2023	December 31, 2022
	Balance sheet credit risk	
Period		NIS million
Up to one year	**5,950**	6,304
From one to three years	**3,084**	3,204
From three to five years	**4,363**	4,935
From five to seven years	**2,447**	2,817
Over seven years	**6,295**	6,273
Total	**22,139**	23,533

Distribution by size of credit to the borrower*

	December 31, 2023			December 31, 2022		
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	**204**	**544**	**748**	211	454	665
From 10 to 20	**403**	**1,070**	**1,473**	429	876	1,305
From 20 to 40	**1,122**	**2,576**	**3,698**	1,157	2,060	3,217
From 40 to 80	**2,774**	**4,469**	**7,243**	2,911	3,505	6,416
From 80 to 150	**5,227**	**4,306**	**9,533**	5,747	3,402	9,149
From 150 to 300	**6,808**	**2,713**	**9,521**	7,194	2,261	9,455
Over 300	**5,601**	**1,081**	**6,682**	5,884	897	6,781
Total	**22,139**	**16,759**	**38,898**	23,533	13,455	36,988

* 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, 2023	December 31, 2022
Type of credit		NIS million
Current account	**1,552**	1,639
Credit card	**3,903**	4,108
Credit carrying variable interest	**15,898**	17,082
Credit carrying fixed interest	**786**	704
Total	**22,139**	23,533

Collateral

	December 31, 2023			December 31, 2022		
	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*	**4,392**	**126**	**4,518**	4,628	432	5,060
* Of which:						
Non-liquid collateral	**4,046**	**96**	**4,142**	4,214	402	4,616
Liquid collateral	**346**	**30**	**376**	414	30	444

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 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, in the real estate sector, 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 basis, these trends. The proportional policy of the Bank, resulted in no material impact on the quality of the credit portfolio, being recorded.

Effect of the "Swards of Iron" War

Upon the outbreak of the War in October, the real estate field was directly affected, when, in the first two weeks of the War, construction sites around the country were closed down. Later on, sites have been partially opened in accordance with decisions of each local authority. In addition, construction sites experienced shortage of labor, whether due to the non-entry of Palestinian building workers from the Judea, Samaria and the Gaza Strip areas, or due to the fact that a part of the foreign building workers have returned to their home countries.

The Bank conducts a current follow-up over all building projects financed by the Bank, and maintains current contact with all entrepreneurs, with a focus on the Southern areas.

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

		December 31	
		2023	**2022**
			NIS million
Overall credit risk(1)			
Projects not yet completed			
Of which:	Open land	**7,271**	7,591
	Property under construction	**5,508**	5,366
Completed building projects		**6,008**	5,958
Other(2)		**6,317**	5,946
Total		**25,104**	24,861

(1) Of which: credit secured by residential property in the amount of NIS 11,063 million (a stated balance of NIS 8,113 million and off-balance sheet amount of NIS 2,950 million), credit secured by industrial property in the amount of NIS 1,212 million (a stated balance of NIS 1,055 million and off-balance sheet amount of NIS 157 million), and credit secured by commercial property in the amount of 6,486 million (a stated balance of NIS 5,699 million and off-balance sheet amount of NIS 787 million) (31.12.22 - NIS 11,428 million, NIS 1,075 million and NIS 6,412 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, 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, 2023, amounts to 2.8%, as compared to 3.2% at December 31, 2022.

The ratio of problematic credit to total credit risk in the construction and real estate sector as of December 21, 2023, amounts to 1.0%, as compared to 0.8% at December 31, 2022.

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, 2023, 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 729 million, as compared to NIS 547 million at the end of 2022.

SIGNIFICANT EXPOSURES TO BORROWER GROUPS

As of December 31, 2023, 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 to a loss or impairment derived from a change in the economic value of financial instrument, certain portfolio or a group of portfolios and on an aggregate level, due to changes in prices, rates, margins and other parameters in the financial markets, including: interest risk, currency risk, inflation risk, securities prices risk and volatility risk.

The year 2023 was marked by restrictive monetary policy that reflected the raising of interest by central banks in Israel and abroad, this on background of high global and local inflation data. During the second half of 2023, inflation rates were moderated in Israel and globally. Most banks around the world stopped the raising of interest, and it is anticipated that as from 2024 they would begin lowering the interest rates. Bank of Israel started to lower the interest at the beginning of 2024.

The Bank takes various actions in order to confront the effects of the said changes, including the updating of assumptions applied in different model regarding credit and market risk, and increasing exposure to fixed interest.

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

EFFECT OF THE "SWORDS OF IRON" WAR

With the outbreak of the War in October 2023, uncertainty has increased regarding the macro-economic forecasts in Israel, in particular with respect to the anticipated rate of inflation and the interest rate. On this background, the capital markets have reacted with declining quotations and an increase in returns on bonds. Reacting thereon, Bank of Israel announced a plan for the stabilization of the foreign currency market. The actions taken by Bank of Israel have moderated the changes in the capital market, in foreign currency exchange rates and in bonds. In December 2023, similarly to the situation occurring around the world, the shares and bonds markets reverted to a positive trend.

The high volatility in the markets had no material impact upon the Bank.

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 instruments 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, 2023			December 31, 2022		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
			NIS million			NIS million
Adjusted fair value, net (1)	**11,290**	**237**	(4)**11,527**	9,062	152	9,214
Of which: banking portfolio	**10,055**	**189**	**10,244**	8,956	26	8,982

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, 2023			December 31, 2022		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
			NIS million			NIS million
Parallel changes						
Parallel increase of 1%	**17**	**(27)**	(4)**(10)**	76	13	89
Of which: banking portfolio	**19**	**(26)**	**(7)**	72	9	81
Parallel decrease of 1%	**13**	**22**	(4)**35**	(57)	(8)	(65)
Of which: banking portfolio	**10**	**24**	**34**	(55)	(4)	(59)
Non-parallel changes						
Steeping (2)	**(254)**	**20**	**(234)**	(188)	24	(164)
Flattening (3)	**277**	**(32)**	**245**	222	(18)	204
Interest increase in short term	**253**	**(39)**	**214**	226	(12)	214
Interest decrease in short term	**(246)**	**33**	**(213)**	(217)	18	(199)

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) During the year 2023 the demand deposits model (current accounts) was updated, which resulted in an increase in the net fair value of NIS 738 million, to an increase of NIS 157 million in the scenario of parallel increase of 1% and to a decrease of NIS 165 million in the scenario of parallel decrease of 1%. Comparative data were not restated.

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

	December 31, 2023			December 31, 2022		
	Interest income	Non-interest income	Total	Interest income	Non-interest income	Total
			NIS million			NIS million
Parallel changes						
Parallel increase of 1%	**152**	**(3)**	**149**	200	2	202
Of which: banking portfolio	**141**	**-**	**141**	199	-	199
Parallel decrease of 1%	**(483)**	**3**	**(480)**	(575)	(2)	(577)
Of which: banking portfolio	**(472)**	**-**	**(472)**	(575)	-	(575)

* 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. During 2023, on the background of the changes in the interest environment, adjustments were made to the assumption at the base of the calculation, which resulted in decrease in the net interest income in the scenario of a parallel increase of 1% in the amount of NIS 77 million and to an increase in the amount of NIS 56 million in the scenario of parallel decrease of 1%. Comparative data were not restated.

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	
	December 31,		December 31,	
	2023	2022	**2023**	2022
Non-linked local currency	**2,540**	3,432	**20**	31
CPI-linked local currency	**7,206**	4,999	**57**	45
Foreign currency and foreign currency linked	**48**	(79)	**-**	(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, 2023 (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	**(5)**	**-**
10% decrease	**(11)**	**(1)**
5% increase	**5**	**-**
10% increase	**12**	**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, 2023 (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	**(148)**
3% increase	**148**

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 operates in the currency market through spot transactions, interest transactions, OTC options and FX/NIS options.
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, 2023			December 31, 2022		
	Derivatives not for trading	Derivatives for trading	Total	Derivatives not for trading	Derivatives for trading	Total
Hedge transactions:						
Interest rate contracts	**2,667**	**-**	**2,667**	3,522	-	3,522
Other transactions:						
Interest rate contracts	**258**	**14,718**	**14,976**	794	17,425	18,219
Foreign currency contracts	**22,565**	**61,854**	**84,419**	18,404	48,494	66,898
Contracts on shares, share indices, commodities and other contracts	**1**	**62,324**	**62,325**	85	55,189	55,274
Total derivative financial instruments	**25,491**	**138,896**	**164,387**	22,805	121,108	143,913

Supervision and control of derivative instrument risk management

The Bank's activity in derivative financial instruments 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 in Israel and 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 obligations due to unexpected withdrawals of deposits from the public, intensified use of credit facilities uncertainty regarding the availability of sources, as well as 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 at prices lower than the market prices and/or raise funds at a price higher than market prices and in crisis situations might even endanger the stability of the Bank.

The Bank implements the provisions of Proper Conduct of Banking Business Directive No.221 – "Liquidity coverage ratio" and the provisions of Proper Conduct of Banking Business Directive No.222 – "Net stable financing ratio (NSFR)", which adopt the Basel Committee recommendations on this subject. Likewise, the Bank operates in accordance with the principles determined in Proper Conduct of Banking Business Directive No.342 – "Liquidity coverage management", inter alia, by means of quantitative indices for the monitoring of the liquidity situation, conducting stress tests and more.

EFFECT OF THE "SWORDS OF IRON" WAR

The outbreak of the War in October, led to deterioration in the capital market in Israel, to a significant devaluation in the exchange rate of the shekel and to a sharp increase in returns and margins. In reaction to that, Bank of Israel has announced a program for the sale of US dollars and for the supply of liquidity to the SWAP market, in order to mitigate the fluctuations in the exchange rate. In addition, Bank of Israel also enables institutional bodies to enter into shekel RIPO transactions with it, in order to reduce flush sales on the bond market. These actions have mitigated the volatility in the capital market, in exchange rate and in bond prices. During December of 2023, the markets took a positive turning, on background of expectations for the lowering of the interest in the first half of 2024. The Bank maintains high liquidity balances in foreign currency and in shekel, over and above the regulatory and internal specifications, in comparison with the balances held under regular business conditions. The Bank continues to conduct a close follow-up over liquidity ratios together with control and monitoring operations.

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 2023.

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 the three months ended December 31,	
	2023	2022
		%
Liquidity coverage ratio consolidated data	**156%**	127%
Liquidity coverage ratio Bank data	**156%**	127%
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, 2023	December 31, 2022
		in percentages
Net stable financing ratio (consolidated)	**146%**	133%
Minimal net stable financing ratio required by the Supervisor of Banks	**100%**	100%

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 95.1 billion on December 31, 2023, compared with NIS 72.5 billion at the end of 2022. Of this amount, the balance of cash, deposits with Bank of Israel and deposits with banks accounted for NIS 68.9 billion, and NIS 26.2 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, 2023 amounted to 162.5% compared with 145.1% on December 31, 2022.

At the end of December 2023, deposits from the public, bonds and subordinated notes totaled NIS 195.9 billion, compared with NIS 173.0 billion at the end of 2022.

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:

	December 31, 2023	December 31, 2022
		NIS million
1	**4,860**	5,319
2	**3,908**	4,021
3	**3,239**	3,706

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.
With the outbreak of the war, the Bank has taken several steps, part of which are existence of specific emergency meetings, transfer of employees to distant working, operating movable branch etc. The Bank examines the situation on a current basis. As of the publication of the financial statements, there is no significant damage to the Bank’s operations.

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 2023, in accordance with the iCloud strategy approved in this year.

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.

The War has led to an increase in attack attempts on organizations in Israel, including avoidance of service attacks (DDOS), as well as to an increase in fraud events combined with social engineering. 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, strengthening and improving protection mechanisms and increasing awareness of employees, in accordance with the development of threats.

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.
   - 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.

EFFECT OF THE "SWORDS OF IRON" WAR

The state of war requires intensified alertness from the Bank. The compliance department conducting controls, with emphasis on identifying operations which reflect “red lights” in respect of suspicious activity in matters relating to compliance, AML and terror finance.

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 her activity in the previous year.
- Risk assessment document, presented once a year at Management and at the Risk management committee of the Board of Directors. The document includes reference to the risk centers in a bank, according to the national risk assessment document, which is published once in a period, as well as risk centers that are unique to the Bank.
- 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 her 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.

EFFECT OF THE "SWORDS OF IRON" WAR

The state of war requires intensified alertness from the Bank, in order to prevent exploitation of the crisis for the purpose of money laundering and the financing of terrorism. The compliance department conducting controls, with emphasis on identifying operations which reflect “red lights” in respect of suspicious activity in matters relating to compliance, AML and terror finance.

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, a year ago, 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.

  The war between Russia and the Ukraine had led to heavy sanctions being imposed on Russia and Belarus by different countries around the world (the United States and countries in Europe including the European Union in particular). Attempts to use banks in order to bypass the sanction regimen by interested parties expose the banking system to a line of risks. The risk of correspondents refusing to provide service to a bank due to violation of the sanction regimen and harm caused to foreign trade and capital market operations, risk of penalties, sanctions, reputation and more, in a significant scope than in the past.

  A letter of the Supervisor of Banks of June 8, 2022, in the matter of risks involving factors declared on international and national sanction lists of foreign countries, relates to significant risks to which banking corporations are exposed with respect to the bypassing of sanction regimen imposed by foreign countries and international organizations. The banks were guided to adopt policies and procedures regarding foreign countries and regarding engagement and transactions with declared factors on the said lists, based on Proper Conduct of Banking Business Directive No. 310 in the matter of risk management. It is further noted in the letter that refusal to approve a transaction, refusal to enter into an agreement or the termination of engagement due to the implementation of a policy , as stated, shall be considered as reasonable refusal for the granting of service under the Banking Act, and that measures taken against customers of banking corporations within the framework of the said implementation, shall be in accordance with the duties of the banking corporations towards their customers, inter alia, taking into consideration the circumstances and nature of the transaction.

The emergency situation due to the war, intensifies compliance risks and greater awareness is required on the part of the Bank regarding the compliance risk issue, anti-money laundering and the finance of terror, in order to avoid abusing the crisis for money laundering and finance of terror purposes. The Compliance Department of the Bank conducts controls with a focus on identifying operations reflecting "red lights" as to transactions raising suspicion relating to compliance, anti-money laundering and finance of terror. In view of the expansion of sanctions by the United States in December 2023, emphasizing the duties of financial institutions outside the US, the Bank carries out several actions in accordance with the requirements of the Expansion Order, inter alia, increasing the monitoring and controls on foreign trade operations at the Bank. Likewise, following publications regarding the imposition of sanctions by the US and countries in Europe on Israeli citizens, the Bank has formed guiding rules, required in order to operate with due care regarding the various duties imposed upon it in this respect.

In view of that stated above, the compliance policy of the Bank Group includes a risk policy concept derived from the different sanctions regimen. The determined guiding rules are intended to create a balance between risk management according to the determined policy, and the required continuity of providing banking and international services to customers of the Bank and the Group.

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, detailing the subjects treated by her in the previous calendar year.
- Risk assessment document, presented once a year at Management, at the Risk management committee and at the Board of Directors. The document includes reference to the risk centers in a bank, according to the national risk assessment document, which is published once in a period, as well as risk centers that are unique to 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.

In addition to the above mentioned, in recent years developments in legislation and banking regulations occurred, in Europe and over the world, which can affect on the risk level and exposure to compliance risks, stemming from providing services to foreign customers. As a general rule, the Bank does not initiate marketing activities, promotion and advertising and does not aim or offer its services on a distinctly manner, or aim at foreign residents, either directly or online. The Bank has no extensions or representation abroad and Bank employees do not operate outside of Israel. In respect of foreign residents account opened at the Bank, the Bank applies risk based approached in all account opening procedures and account management, in order to minimize and hedge, as possible, the probability or possibility that the Bank will breach the foreign laws while providing services to foreign residents. This is done by prohibition of performing active marketing activity, restriction and adjustment of type and the manner of providing the services, including restriction or avoidance of provision of services to foreign residents at the time when they stay outside of Israel, and with reference to the matter of the service initiator.

The risk level of cross border risk was increased since the beginning of the war between Russia and the Ukraine and the beginning of the sanctions regime on Russia and separatist areas in the Ukraine. It is emphasized, that in light of the existing reality, the controls and examination performed by the Bank were tightened, with emphasis on the updating the list of declared entities under sanctions on a current basis and controls over activities done with Russia, Ukraine and Belarus.

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.
In view of the War, the unprecedented damage caused to a wide section of the population and the mass call-up of reservists, as well as considerable concern regarding deterioration in the economic situation, the work done these days by the regulatory authorities and by the State, is focused on alleviating and finding solutions to the difficulties and challenges that have occurred.
In addition, within the framework of a Bill for the amendment of the budget for 2024, due to the War, the Finance Committee of the Knesset has recently passed for second and third readings a Bill, according to which, the banks will make a special payment at the rate of 6% of earnings in the years 2024 and 2025 (for additional details, see Note 8D to the financial statements).
In the months preceding the War, alongside many reforms and regulatory initiatives that had been and are being promoted in recent years, in relation to the financial sector generally and to the banking business in particular, and in the shadow of fast and significant rise in Bank of Israel interest rate in the course of most of 2023, a trend was recorded of introducing regulatory and

legislative initiatives, which are still at their preliminary stage, and which are intended or may, inter alia, affect and intervene, directly or indirectly, in the prices of banking products and services and in the rates of interest in practice in the banking system, as regards the credit to the public side, deposits by the public and securities services.

It should be mentioned in this connection, that the Competition Authority has announced the beginning of discussions with Bank of Israel regarding the declaration of the five large banking groups as a "concentration group", with reference to the measures to be considered, if and when such declaration materializes, and primary proposals regarding the development of the money market.

On February 14, 2024, Bank of Israel published "a public appeal for comments of the public as to a graded outline for the licensing and proportional regulation of non-bank entities for the purpose of increasing competition in the banking system". Consultation with the public is with regards to the granting of "banking corporation" license and facilitating permits to non-bank entities including credit card companies, for acceptance of deposits by the public and for extending credit against them in accordance with grading and size, by having facilitating regulation and with the focusing on households and small businesses as customers.

The intention of Bank of Israel in this framework is to offer graded licenses, all of them either "banking corporation" license, financial institution license, basic bank license, or extended bank license.

Mentioned, inter alia, are announcements and examination of moves, each of which separately, and definitely some of them together, may directly affect the activity of the banking system and its results of operation, as well as the regulatory relations required from banks, and this, inter alia, in view of the possible effect that a significant and quick change may have on the conduct of the economy, and in view of the fact that no similar experience exists in Israel or abroad, with respect to most of these moves, and their possible implications.

At this stage, it is not possible to assess the extent, if at all, and which of these initiatives would materialize and when, and what would be the effect on the Bank of these changes or part thereof, if at all realized. The said trends have in part returned to the agenda, several months following the outbreak of the War.

For details regarding material regulatory initiatives having a possible impact on the activities of the Bank during the reported period, as well as those enacted on the background of the War, see “Legislation and regulatory initiatives” in the chapter on “Corporate Governance”.

MODEL RISK

GENERAL

Model risk is defined as the potential for negative implications stemming from decisions or actions (including reporting) that had been made based on erroneous model products, or the wrong use made of model products. The realization of the model risk may lead to financial loss, erroneous business and strategic 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 measured tolerance to model risk. The Bank acts to minimize the model risks to the extent possible, while considering costs as against the reduction of the risk.

The level of meticulousness and sophistication of the validation processes at the Bank (primary, periodically and current) are in line with the comprehensive use of the models by the Bank, with the complexity and significancy of the models and the Bank’s activity.

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. In the first quarter of the year the estimation of the risk level was lowered from "low-medium" to "low" due to the continuance decrease in the exposure to this channel.	Low
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.	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. In the third quarter of the year the estimation of the risk level was raised from "low" to "low-medium" in view of the continued development of models in the core of the Bank's activity and the reliance on the results of these models in the decision-making process and on the background of the war.	Low-Medium

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).

PROVISION FOR CREDIT LOSSES

Since 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.

According to the new rules, the purpose of the provision for credit losses is to assess the credit losses anticipated over the life of the credit. The process of determining the provision is based on methods that had been developed with the aim of assessing anticipated losses, taking into account historical data as well as reasonable and supportable forward-looking forecasts. This assessment contains also qualitative adjustments, including subjective forecasts and evaluations by Management, which involve uncertainty, and changes in assessments or estimates that may have a material impact on the provision for credit losses.

Furthermore, in each quarter, the Bank conducts an examination of the classification adequacy and reasonableness of the collective provision, which also includes aspects of judgment, assessments and evaluations regarding the level of risk inherent in the credit portfolio of the Bank.

The provision in respect of nonaccrual debts of the commercial credit segment is computed using the discounted cash flows method. The provision for loans the collection of which depends on collateral is computed on the basis of the value of the collateral. This provision is based upon assessment of the expected receipts for the repayment of the debt from all relevant repayment sources, including the business operations of the debtor, the value of collateral provided by the debtor and the realization value of guarantees provided by the debtor or by third parties. This method requires use of judgment and assessments, which Management of the Bank believes to be reasonable at date of valuation. However, due to the nature of things, no certainty exists that the amounts that would be collected in actual fact would be identical to the assessment made.

The provision for anticipated credit losses regarding residential loans, loans to private individuals and commercial credit the contractual balance of which is below NIS one million, or commercial credit the contractual balance of which is over NIS one million but which does not comprise nonaccrual credit, is composed of a quantitative layer and qualitative adjustments, and is computed separately for each class of financial assets having similar risk characteristics. As regards commercial credit, the main method used by the Bank is the method based upon historical rates of net accounting write-offs (WARM), while with respect to credit to private individuals and residential credit, the Bank applies the method of default/loss probability in case of default (PD/LGD).

For the purpose of determining the qualitative adjustments included in the provision for anticipated credit losses, the Bank takes into account the nature if the financial assets as well as indicators relating to the specific credit portfolio of the Bank, such as: changes in volume of credit, changes in volume of troubled debts, quality of controls, concentration of credit, and more. In determining the qualitative adjustments, the Bank relates also to the state of the economy and the economic environment based on existing macro-economic data and on macro-economic forecasts for a period considered reasonable and supportable. Within the framework of the qualitative adjustments, the Bank examines whether additional uncertainties exist that are not sufficiently reflected in the outcome, and where required, increases the provision for anticipated credit losses. These assessments reflect uncertainty, and by nature, may change from time to time.

In accordance with guidelines of the Supervisor of Banks, in determining the provision as of December 31, 2023, the Bank has increased the provisions for credit losses, in view of the existing economic uncertainty, due to changes in the macro-economic environment, deriving from the war situation in which the State of Israel is found, the rise in interest rates and the rise in the rate of inflation.

As stated, in determining the provision for credit losses, the Bank relates to a wide array of data, in part being internal data of the Bank and in part being general data, inter alia, macro-economic indicators. As regards the macro-economic indicators, the Bank, in its assumptions as of December 31, 2023, based itself upon economic forecasts. It is noted that the macro-economic values, as stated, form part of a wide set of parameters, assessments and subjective evaluations used in determining the provision for credit losses, and that changes in these assessments and subjective evaluations may, to a large extent, divert the collective provision for credit losses.

In the wake of the outbreak of the War, a mapping process has been conducted, in participation with the business functions and the Risk Management Division, of the different segments of operation that might be impacted by the security situation, with a view of identifying customers which might be affected by the situation in a way that would have an effect upon their financial stability and repayment ability. In the first stage, Customer accounts in the real estate, hotel, food and catering services and aviation, textile and retail businesses, such as: clothing, electric, household goods and furniture manufacturing sectors have been examined. Also examined were accounts of companies engaged in non-bank credit. In addition, due to the volatility in foreign currency exchange rates, accounts of customers indicating exposure to currency exchange rates (especially importers) have been examined. A dynamic follow-up list has been compiled, which is being reviewed from time to time and which includes debts as stated, on which is based an additional qualitative provision for anticipated credit losses.

In addition, in order to test the sensitivity of the provision for credit losses to assumptions and evaluations that are different than those noted in the economic forecast, as stated, and which had been used in determining the provision for loan losses at December 31, 2023, the Bank had tested additional scenarios, a pessimistic scenario and an optimistic scenario. The work assumptions by the Bank applied in the pessimistic scenario are: continuation of the state of war, low growth rates of the GDP and of private consumption. Furthermore, the Bank had intensified the forecast for the upward trend in the rate of unemployment for the next four consecutive quarters. In the optimistic scenario, different mitigations had been applied to the work assumptions regarding the said parameters. The said sensitivity analysis, the results of which are based on subjective evaluations, indicate that computation of the provision for credit losses as of December 31, 2023, based on the pessimistic forecast, would have resulted in an increase of NIS 70 million, while computation of the collective provision based on the optimistic forecast, would have led to a reduction of NIS 60 million in the collective provision. It is emphasized, that the pessimistic scenario does not constitute a stress test.

It is emphasized, that the credit loss expense depends on a wide array of factors to which uncertainty applies, when on the one hand, a slower recovery pace of the economy may lead to a higher provision, while on the other hand, existence of mitigating factors, such as a faster pace of economic recovery as well as internal factors at the Bank, such as the quality of the credit underwriting process and the quality of collateral and of the control mechanisms, may result in a reduction in the level of expense.

Assessment of the provision for credit losses requires that Management uses estimates and evaluations that are, generally, based on economic forecasts, evaluations of market developments and estimates of their effect on credit risk and the future realization of credit losses. Use of assessments and evaluations requires application of judgment leading the Management of the Bank to believe that these are reasonable at date of publication of the financial statements. Nevertheless, and of the nature of things, no certainty exists that credit losses that may evolve in the future with respect to the existing credit portfolio, would be identical to the determined assessments and evaluations.

Estimates made by the Bank in the matter of the provision for credit losses are considered forward looking information, as defined by the Securities Act, 1968. These are based, inter alia, on information and publications by third parties and on estimates in the hands of the Bank at date of publication of the financial statements. These estimates are uncertain and actual credit losses might be materially different than the estimates made.

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, 2023	
	Increase of 1%	Decrease of 1%
		NIS million
Effect of change in Salary on:		
Actuarial liabilities for pension and severance payments	58	(48)
Other post-employment and retirement benefits	1	(1)
Benefit in respect of nonutilized sick leave	3	(2)
Effect of change in discount rate on:		
Actuarial liabilities for pension and severance payments	(48)	57
Other post-employment and retirement benefits	(29)	37
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	118	(98)
Other post-employment and retirement benefits	1	(1)
Benefit in respect of nonutilized sick leave	(4)	3
Staff long service awards	(1)	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 creates 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, 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, 2023 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 2023, 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 12, 2024	Ron Levkovich Chairman of the Board	Eli Cohen CEO

CERTIFICATION

I, Eli Cohen, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 2023 (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 12, 2024

Eli Cohen
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 2023 (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 12, 2024

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, 2023, 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, 2023, 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, 2023 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, 2023.

Ron Levkovich Chairman of the Board	**Eli Cohen** Chief Executive Officer	**Nachman Nitzan** Executive Vice President, Chief Accountant

Tel-Aviv, March 12, 2024

AUDITED ANNUAL FINANCIAL STATMENTS

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+972 3 684 8000

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, 2023, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). 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, 2023, based on criteria established in Internal Control - Integrated Framework issued by COSO.

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, 2023 and 2022 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, 2023, and our report, dated March 12, 2024, expressed an unqualified opinion on those financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 12, 2024

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+972 3 684 8000

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, 2023 and 2022 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, 2023. 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, 2023 and 2022, 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, 2023, 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, 2023, 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 12, 2024, 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 NIS 1,785 million and includes a specific allowance and collective allowance in respect of the risk of the credit to the public.

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+972 3 684 8000

In the process of estimating the allowance for credit losses, the Bank estimates expected the loss 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 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 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 Response to the Key Matter in the Audit

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;
- Examination of 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;
- Classification of debts according to the Bank's procedures;
- Analysis of the allowance's reasonableness as a whole.

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+972 3 684 8000

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 it's consistency 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 12, 2024

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

		Consolidated			The Bank		
	Note	2023	2022	2021	2023	2022	2021
Interest Income	2	**9,850**	5,161	3,150	**9,317**	4,833	2,907
Interest Expenses	2	**4,884**	1,358	356	**4,801**	1,339	358
Interest Income, net	2	**4,966**	3,803	2,794	**4,516**	3,494	2,549
Expenses (income) from credit losses	13,29	**502**	123	(216)	**484**	118	(213)
Net Interest Income after expenses from credit losses		**4,464**	3,680	3,010	**4,032**	3,376	2,762
Non-Interest Income							
Non-Interest Financing income	3	**142**	113	303	**161**	111	301
Fees	4A,4B	**1,502**	1,489	1,444	**1,348**	1,331	1,285
Other income	5	**8**	9	9	**62**	66	49
Total non-Interest income		**1,652**	1,611	1,756	**1,571**	1,508	1,635
Operating and other expenses							
Salaries and related expenses	6	**1,746**	1,680	1,601	**1,626**	1,564	1,491
Maintenance and depreciation of premises and equipment		**341**	332	340	**315**	306	313
Amortizations and impairment of intangible assets	17	**122**	113	105	**120**	111	103
Other expenses	7	**668**	630	606	**642**	604	584
Total operating and other expenses		**2,877**	2,755	2,652	**2,703**	2,585	2,491
Profit before taxes		**3,239**	2,536	2,114	**2,900**	2,299	1,906
Provision for taxes on profit	8	**1,090**	884	728	**973**	801	656
Profit after taxes		**2,149**	1,652	1,386	**1,927**	1,498	1,250
The bank's share in profit of equity-basis investee, after taxes	15	**113**	74	69	**245**	169	155
Net profit:							
Before attribution to non-controlling interests		**2,262**	1,726	1,455	**2,172**	1,667	1,405
Attributed to non-controlling interests		**(90)**	(59)	(50)	**-**	-	-
Attributed to shareholders of the Bank		**2,172**	1,667	1,405	**2,172**	1,667	1,405

Consolidated and The Bank	**Note**	**2023**	**2022**	**2021**
Primary profit per share attributed to the shareholders of the Bank	9			NIS
Net profit per share of NIS 0.05 par value		**21.65**	16.62	14.00

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

Ron Levkovich
Chairman of the Board

Eli Cohen
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, March 12, 2024

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

(NIS million)

	Consolidated		
	2023	**2022**	**2021**
Net profit before attribution to non-controlling interests	**2,262**	1,726	1,455
Net profit attributed to non-controlling interests	**(90)**	(59)	(50)
Net profit attributed to the shareholders of the Bank	**2,172**	1,667	1,405
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale bonds to fair value, net	**213**	(441)	27
Adjustments of liabilities in respect of employee benefits(2)	**25**	235	(24)
Other comprehensive income (loss) before taxes	**238**	(206)	3
Related tax effect	**(81)**	71	(1)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**157**	(135)	2
Less other comprehensive income (loss) attributed to non-controlling interests	**9**	(13)	-
Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes	**148**	(122)	2
Comprehensive income before attribution to non-controlling interests	**2,419**	1,591	1,457
Comprehensive income attributed to non-controlling interests	**(99)**	(46)	(50)
Comprehensive income attributed to the shareholders of the Bank	**2,320**	1,545	1,407

(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	2023	2022	2023	2022
Assets					
Cash and deposits with banks	11	**68,866**	57,130	**67,472**	56,403
Securities[(4)]	12, 26	**26,985**	16,010	**25,940**	15,215
Securities which were borrowed		**57**	12	**57**	12
Credit to the public	13, 29	**119,240**	117,156	**113,118**	111,019
Provision for Credit losses		**(1,618)**	(1,195)	**(1,520)**	(1,115)
Credit to the public, net		**117,622**	115,961	**111,598**	109,904
Credit to the government	14	**1,055**	866	**369**	158
Investment in equity-basis investees	15	**786**	687	**1,642**	1,403
Premises and equipment	16	**877**	902	**855**	879
Intangible assets	17	**328**	317	**324**	311
Assets in respect of derivative instruments	27A, 27B	**3,651**	2,825	**3,651**	2,825
Other assets[(2)]	18	**1,366**	1,245	**1,293**	1,166
Total assets		**221,593**	195,955	**213,201**	188,276
Liabilities and Shareholders' Equity					
Deposits from the public	19	**191,125**	168,269	**184,082**	161,540
Deposits from banks	20	**4,314**	4,821	**6,344**	7,223
Deposits from the Government		**750**	237	**750**	237
Bonds and subordinated capital notes	21	**4,767**	4,749	**2,442**	2,365
Liabilities in respect of derivative instruments	27A, 27B	**3,784**	2,322	**3,790**	2,332
Other liabilities[(1)(3)]	22	**4,207**	4,522	**3,722**	4,020
Total liabilities		**208,947**	184,920	**201,130**	177,717
Capital attributed to the shareholders of the Bank		**12,071**	10,559	**12,071**	10,559
Non-controlling interests		**575**	476	**-**	-
Total equity		**12,646**	11,035	**12,071**	10,559
Total liabilities and shareholders' equity		**221,593**	195,955	**213,201**	188,276

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 165 million and NIS 117 million (consolidated) and NIS 161 million and NIS 112 million (the Bank) as of December 31, 2023 and 2022, respectively.
(2) Of which: other assets measured at fair value in the amount of NIS 10 million consolidated and the Bank (31.12.22 - NIS 26 million consolidated and the Bank).
(3) Of which: other liabilities measured at fair value in the amount of NIS 11 million consolidated and the Bank (31.12.22 - NIS 26 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, 2021	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)
Balance as 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
Adjustment of the opening balance, net of tax, due to the effect of initial implementation in investee company*	-	-	(10)	(10)	-	(10)
Adjusted balance at January 1, 2023, following initial implementation	**927**	**(303)**	**9,925**	**10,549**	**476**	**11,025**
Changes during 2023 -						
Net profit for the year	**-**	**-**	**2,172**	**2,172**	**90**	**2,262**
Dividend	**-**	**-**	**(798)**	**(798)**	**-**	**(798)**
Other comprehensive income, after tax effect	**-**	**148**	**-**	**148**	**9**	**157**
Balance as at December 31, 2023	**927**	**(155)**	**11,299**	**12,071**	**575**	**12,646**

* Cumulative effect of the initial implementation of US accounting principles in the matter of financial instruments - credit losses (ASC-326).

(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		
	2023	2022	2021	2023	2022	2021
Cash flows from (for) operating activities:						
Net profit for the year	**2,262**	1,726	1,455	**2,172**	1,667	1,405
Adjustments to reconcile cash provided by operating activities:						
The Bank's share in profit of equity-basis investee	**(113)**	(74)	(69)	**(245)**	(169)	(155)
Depreciation of premises and equipment	**64**	65	66	**62**	62	63
Amortization of intangible assets	**122**	113	105	**120**	111	103
Gain on sale of premises and equipment	**(6)**	(8)	(7)	**(6)**	(8)	(2)
Expenses (income) from credit losses	**502**	123	(216)	**484**	118	(213)
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	**99**	46	(89)	**81**	47	(86)
Realized and non-realized loss (gain) from adjustment to fair value of trading securities	**2**	(1)	-	**2**	(1)	-
Realized and non-realized loss (gain) from adjustment to fair value of not for trading shares	**(14)**	79	(125)	**(14)**	79	(125)
Deferred taxes, net	**(148)**	(60)	63	**(141)**	(56)	61
Defined benefit of pension and severance pay plans	**58**	61	81	**53**	56	77
Adjustments of exchange rate differences	**274**	1,408	(489)	**274**	1,406	(490)
Dividend received from equity-basis investee	**21**	118	-	**21**	118	10
Net change in current assets:						
Trading securities	**(1,427)**	207	(25)	**(1,427)**	207	(25)
Other assets	**(15)**	309	(155)	**(28)**	313	(159)
Assets in respect of derivative instruments	**(931)**	(826)	318	**(931)**	(823)	322
Net change in current liabilities:						
Other liabilities	**(544)**	(271)	(1,562)	**(515)**	(314)	(1,373)
Liabilities in respect of derivative instruments	**1,462**	284	(276)	**1,458**	294	(276)
Accumulation differences included in investing and financing activities	**(337)**	131	(176)	**(410)**	(46)	31
Net cash from (for) operating activity	**1,331**	3,430	(1,101)	**1,010**	3,061	(832)
Cash flows for investing activity						
Change in Deposits with banks	**398**	(331)	72	**380**	(350)	(123)
Change in Securities borrowed	**(45)**	833	(834)	**(45)**	833	(834)
Change in Credit to the public	**492**	(11,872)	(7,583)	**365**	(11,389)	(7,176)
Change in Credit to the government	**(189)**	(52)	(155)	**(211)**	(107)	(13)
Purchase of available for sale bonds and not for trading shares	**(33,029)**	(6,481)	(6,003)	**(32,592)**	(6,276)	(5,636)
Proceeds from redemption of bonds held to maturity	**348**	359	207	**347**	357	207
Proceeds from sale of available for sale bonds and not for trading shares	**4,157**	1,834	2,123	**3,971**	1,752	1,645
Redemption of available for sale bonds	**19,304**	1,464	1,459	**19,297**	1,451	1,459
Acquisition of premises and equipment	**(52)**	(41)	(39)	**(51)**	(40)	(36)
Proceeds from sale of premises, equipment and other assets	**19**	12	14	**19**	12	5
Investment in intangible assets	**(133)**	(130)	(133)	**(133)**	(128)	(133)
Cash flows for investing activity	**(8,730)**	(14,405)	(10,872)	**(8,653)**	(13,885)	(10,635)

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		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**
Cash flows from financing activity						
Change in Deposits from the public	**20,361**	10,386	11,158	**20,137**	10,178	10,963
Change in Deposits from banks	**(564)**	(416)	2,315	**(892)**	(456)	2,108
Change in Deposits from the government	**491**	(192)	(34)	**491**	(193)	(34)
Proceeds from the issue of bonds and subordinate debt notes	**-**	1,669	500	**-**	1,405	-
Redemption of bonds and subordinate debt notes	**(145)**	(465)	(1,588)	**(20)**	(34)	(1,141)
Dividend paid to shareholders	**(798)**	(945)	(545)	**(798)**	(945)	(545)
Dividend paid to non-controlling shareholders in consolidated subsidiary	**-**	-	(10)	**-**	-	-
Net cash from financing activity	**19,345**	10,037	11,796	**18,918**	9,955	11,351
Increase (decrease) in cash	**11,946**	(938)	(177)	**11,275**	(869)	(116)
Cash balances at beginning of year	**55,423**	55,992	56,352	**54,269**	54,815	55,095
Effect of changes in exchange rates on cash balances	**188**	369	(183)	**174**	323	(164)
Cash balances at end of year	**67,557**	55,423	55,992	**65,718**	54,269	54,815
Interest, dividend and taxes paid and/or received:						
Interest received	**9,129**	4,674	3,269	**8,529**	4,305	2,991
Interest paid	**(3,780)**	(907)	(433)	**(3,598)**	(808)	(351)
Dividends received	**43**	21	43	**43**	21	43
Income tax paid	**(1,482)**	(813)	(771)	**(1,346)**	(718)	(687)
Income tax received	**67**	44	54	**60**	39	50

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, 2023 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 12, 2024.

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, 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. 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, 2025 (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		
	2023	2022	2021	2023	2022	2021
				%	%	%
Rate of exchange of the U.S. dollar (in NIS)	**3.627**	3.519	3.110	**3.1**	13.2	(3.3)
Rate of exchange of the Euro (in NIS)	**4.012**	3.753	3.520	**6.9**	6.6	(10.8)
Consumer Price Index -						
November (in points)	**105.1**	101.7	96.6	**3.3**	5.3	2.4
December (in points)	**105.0**	102.0	96.9	**3.0**	5.3	2.8
Bank of Israel interest rate (%)	**4.75**	3.25	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 five 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.

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 profits or 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 profit or 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 respect of guarantees, that item 326-20 of the Codification applies to them, at date of initial recognition, in addition to the liability in fair value, that would be recognized in accordance with the guidelines of item 460 of the Codification, a liability in respect of anticipated credit losses would also be recognized, in accordance to item 326-20 of the Codification.

In guarantees, in respect of which, item 326-20 to the Codification does not apply to them, 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. In respect of Guarantees that a liability in respect of anticipated credit losses was recognized, it will be measured according to item 326-20 of the Codification. 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.

D. NEW ACCOUNTING STANDARDS AND NEW DIRECTIVES OF THE SUPERVISOR OF BANKS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

(1) 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 October 19, 2023, the Supervisor of Banks published a circular updating the public reporting instructions with respect to the 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 with respect to provisions for credit losses (hereinafter - "the update"), which had been published by the US Financial Accounting Standards Board (hereinafter - the "FASB").

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 stated in the circular will take effect as from January 1, 2024. Upon their initial application, banks should act in accordance with the transitional instructions contained in the accounting rules accepted by US banks.

The Bank estimates that the implementation of the new directive will not have a material effect on the balance of the allowance for credit losses.

(2) Update of Standard ASU 2023-07 in the matter of improvement of the disclosure requirements regarding reportable segments of operation

On November 27, 2023, the FASB published Standards ASU 2023-07 in the matter of improvement of the disclosure requirements regarding segments of operation (hereinafter – "the update). The update improves the disclosure requirements applying to entities, including addition of a requirement to provide disclosure within the framework of the note on segments with respect to "significant expenses" reported to the CODM, providing explanation regarding the manner in which the CODM makes use of segment reporting, expanding certain annual disclosure requirements to interim periods, exposing the identity and duties of the CODM and clarification that Item 280 applies also to entities having one segment only. The provisions of the update apply to public entities in the US starting with annual periods beginning after December 15, 2023, and to interim periods starting after December 15, 2024. Earlier adoption is possible. Upon initial application, the entity is required to apply this update retroactively for all periods presented in the financial statements, unless this is not practicable.

The Bank is studying the effect of the new rules upon its financial statements.

(3) Update of Standard ASU 2023-09 in the matter of improvements of the disclosure requirements regarding taxes on income

On December 14, 2023, the FASB published Standard ASU 2023-09 in the matter of improvement of the disclosure requirements regarding taxes on income (hereinafter – "the update"). The amendments contained in the update add new improved disclosure requirements as well as delete certain disclosure requirements. The provisions of the update apply to public entities in the US starting with annual periods beginning after December 15, 2024. Earlier adoption is possible. Upon initial application, the entity is required to apply this update by way of "from now onwards". Retroactive application for prior periods is possible.

The Bank is studying the effect of the new rules upon its financial statements.

E. EFFECT OF THE "SWORDS OF IRON" WAR

In the wake of the terror attack on Israel and the beginning of the "Swords of Iron" War on October 7, 2023, the State of Israel entered an emergency situation. Inter alia, the War caused a slowdown in economic activity, due to the wide call-up of reserve servicemen, damage to property, disruption of supply chains and shutdown of work places. Furthermore, the possibility of escalation exists also in other areas. In view of the high uncertainty existing with respect to the duration and nature of the War, considering the possible impact of the War on the economy and on the activity of the Bank as well as on budgetary and policy decisions placed on the doorstep of the Government, the risk and potential impact on the Israeli economy and on the Bank itself, are high.

At the beginning of the War, securities prices plummeted on the Tel Aviv Stock Exchange and the shekel devalued against other currencies. These trends were partly turned over until the end of 2023, so that the leading Stock Exchange indices returned to a level similar to that existing before the War and the shekel appreciated against the foreign currencies.

The disruption in life routine and the impact of the War upon the Israeli economy, caused Bank of Israel to publish guidelines to banks in order to ease the burden on customers. Among the guidelines may be found the possibility of deviating from credit facilities or determining new short-term repayment arrangements (inter alia, waiver of interest on arrears and deferral of interest and principal payments for a period of up to three months). In accordance with letters of Bank of Israel dated December 17, 2023 and March 4, 2024, the outline as of the end of the year, was extended by three additional months, and also the classes of those entitled to relief were enlarged.

In addition to the outline for the support of those affected by the War and for the encouragement of business, published by Bank of Israel, the Bank has pitched in to help customers affected by the War offering them additional relief, such as a three month standstill regarding mortgage repayments free of interest during the deferral period, and loans of up to NIS 20 thousand, free of interest and linkage increments for a period of two years. Likewise, benefits regarding mortgages were granted to regular servicemen in accordance with the basic outline, as stated. Two designated funds of NIS 100 million each have been established for the granting of interest free loans, one for regular servicemen and the other for reservists on active service. Also, the possibility of deferring loan repayments was offered to business customers.

The Bank is studying the implications of the extension of the outline dated March 4, 2024. At this stage, the assessments of the value of all the said benefits as above, may reach an amount of NIS 149 million, assuming exercise of the benefits in full and excluding the effect of the outline, as stated. These costs would be recognized in profit and loss upon exercise of the benefits by customers. The total cost of benefits exercised in the fourth quarter of the year and recognized in profit and loss amounts to NIS 32 million.

In view of the War and its anticipated adverse effect on the Israeli economy, the international rating agencies Moody's and Fich announced already at the beginning of October 2023, that they had put the State of Israel on a negative rating follow-up, this due to the change in the risk concept. The international rating agency S&P announced the lowering of the credit rating outlook of the State of Israel from "stable" to "negative", even though the rating itself remained at the level of AA-. On February 9, 2024, Moody's announced the lowering of the credit rating of the State of Israel from a level of A1 to A2 with a negative rating outlook. Moody's noted that the reason for the lowering of the rating is uncertainty as to the date and manner of termination of the War, the impact of the War on the availability of the Government and the Knesset to deal with economic and social core issues, and the change in the fiscal condition. The reason for the negative rating outlook is the uncertainty regarding the spreading of the War to the northern front. On February 13, 2024, Moody's announced the lowering of the rating of the five large banks in Israel by one grade, from A2 to A3 with a negative rating outlook.

The continuation of the War may lead to deterioration in economic activity in the different sectors of business activity in Israel to which the Bank is exposed, including growth in credit risk and in liquidity difficulties of borrowers, and as a result thereof, deterioration in credit quality, both in the business sector and in the private sector.

The results of operations of the Bank Group for the period ended December 31, 2023, had been affected, inter alia, by growth in credit loss expenses in the third and fourth quarters of the year, stemming mainly from the collective allowance for credit losses, due to concerns regarding the macro-economic effect of the War.

The War caused instability and significant uncertainty in the economy. The Bank estimates at this stage, based on information available at date of approval of the financial statements, that the present events and the escalation in the defense situation in Israel, may have an adverse effect on its business results, due to a decline in volume of operations in the economy. Such decline may be reflected in reduced interest income, growth in credit losses, decline in commission income and in other business operations. Whereas the event in question is not under control of the Bank and developments in the field may affect assessments by the Bank, as of date of this Report, the Bank is unable to assess and evaluate the scope of the anticipated effect of the War on its results in the medium and long terms. The Bank currently follows the situation and makes modifications to operations and to risk management in accordance with developments.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

Composition:

		Consolidated			The Bank		
		For the year ended December 31			For the year ended December 31		
		2023	**2022**	**2021**	**2023**	**2022**	**2021**
A.	**Interest income**(1)						
	From credit to the public	**6,722**	4,350	2,995	**6,259**	4,052	2,764
	From credit to the Government	**16**	30	13	**-**	-	-
	From deposits with banks	**107**	24	-	**118**	42	5
	From deposits with Bank of Israel and from cash	**2,227**	542	47	**2,181**	531	46
	From securities which were borrowed	**4**	5	1	**4**	5	1
	From bonds	**774**	210	94	**755**	203	91
	Total interest income	**9,850**	5,161	3,150	**9,317**	4,833	2,907
B.	**Interest expenses**						
	On deposits from the public	**4,632**	1,112	237	**4,556**	1,169	261
	On deposits from the Government	**15**	2	2	**15**	2	2
	On deposits from banks	**29**	10	1	**91**	48	21
	On deposits with Bank of Israel	**2**	3	2	**2**	3	2
	On bonds and subordinated capital notes	**204**	229	113	**135**	115	71
	On other liabilities	**2**	2	1	**2**	2	1
	Total interest expenses	**4,884**	1,358	356	**4,801**	1,339	358
	Total interest income, net	**4,966**	3,803	2,794	**4,516**	3,494	2,549
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**						
	Interest income (expenses)(2)	**94**	(6)	(48)	**91**	(6)	(47)
D.	**Details of interest income from bonds on cumulative basis**						
	Held to maturity	**79**	58	39	**79**	58	39
	Available for sale	**677**	150	54	**658**	143	51
	Held for trading	**18**	2	1	**18**	2	1
	Total included in interest income	**774**	210	94	**755**	203	91

(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		
		2023	2022	2021	2023	2022	2021
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)	**377**	1,516	(485)	**377**	1,513	(485)
2.	From investments in bonds						
	Gains from sale of bonds available for sale(2)	**6**	7	24	**6**	6	21
	Losses from sale of bonds available for sale(2)	**(107)**	(12)	(1)	**(89)**	(12)	(1)
	Provision for impairment of available-for-sale bonds(2)	**-**	(29)	-	**-**	(29)	-
	Total from investment in bonds	**(101)**	(34)	23	**(83)**	(35)	20
3.	Net exchange differences	**(274)**	(1,408)	489	**(273)**	(1,406)	490
4.	From investment in shares						
	Gains from sale of shares not for trading	**5**	8	72	**5**	8	72
	Losses from sale of shares not for trading	**(3)**	(20)	(6)	**(3)**	(20)	(6)
	Dividend from shares not for trading	**44**	29	40	**44**	29	40
	Unrealized gains (losses)(3)	**14**	(79)	125	**14**	(79)	125
	Total from investment in shares	**60**	(62)	231	**60**	(62)	231
	Total non-interest financing income in respect of non-trading activities	**62**	12	258	**81**	10	256

(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		
	2023	2022	2021	2023	2022	2021
B. Net income (expenses) in respect of non-interest financing activity for trading[3]						
Net income in respect of other derivative instruments	**82**	100	45	**82**	100	45
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[1]	**-**	3	(2)	**-**	3	(2)
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading[2]	**(2)**	(2)	2	**(2)**	(2)	2
Total non-interest financing income from trading activities[4]	**80**	101	45	**80**	101	45
Total non-interest financing income	**142**	113	303	**161**	111	301
Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure						
Interest rate exposure	**15**	20	17	**15**	20	17
Foreign currency exposure	**61**	75	20	**61**	75	20
Exposure to shares	**4**	6	8	**4**	6	8
Total	**80**	101	45	**80**	101	45

(1) Of which: No gains/losses in respect of trading bonds on hand at balance sheet date.
(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		
	2023	2022	2021	2023	2022	2021
Account management	**211**	214	206	**189**	192	184
Credit cards	**130**	128	119	**115**	114	106
Securities and certain derivative instruments activity	**518**	509	531	**505**	494	513
Financial products distribution commissions[1]	**118**	132	131	**111**	126	124
Management, operation and trust to institutional entities	**102**	103	98	**31**	27	26
Credit handling	**17**	19	18	**15**	17	16
Conversion differences	**213**	195	168	**208**	190	164
Foreign-trade activity	**42**	43	42	**42**	42	41
Commissions from financing activities	**100**	98	82	**98**	96	79
Other fees	**51**	48	49	**34**	33	32
Total Fees	**1,502**	1,489	1,444	**1,348**	1,331	1,285

(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, 2023					
	Banking Division	Corporate Division	Customer Asset Division	Subsidiary companies	Adjustments	Total
Account management	**169**	**33**	**8**	**22**	**(21)**	**211**
Credit cards	**112**	**6**	**2**	**15**	**(5)**	**130**
Securities and certain derivative instruments activity	**320**	**159**	**505**	**20**	**(486)**	**518**
Financial products distribution commissions(1)	**110**	**4**	**111**	**6**	**(113)**	**118**
Management, operation and trust to institutional entities	**-**	**-**	**102**	**-**	**-**	**102**
Credit handling	**3**	**13**	**-**	**14**	**(13)**	**17**
Conversion differences	**102**	**88**	**208**	**6**	**(191)**	**213**
Foreign-trade activity	**23**	**27**	**2**	**1**	**(11)**	**42**
Commissions from financing activities	**22**	**84**	**3**	**3**	**(12)**	**100**
Other fees	**38**	**8**	**1**	**7**	**(3)**	**51**
Total Fees from contracts with customers	**899**	**422**	**942**	**94**	**(855)**	**1,502**

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

(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		
	2023	2022	2021	2023	2022	2021
Capital gains from the sale of building and equipment	**6**	8	7	**6**	8	2
Other	**2**	1	2	**56**	58	47
Total other income	**8**	9	9	**62**	66	49

NOTE 6 - SALARIES AND RELATED EXPENSES

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2023	2022	2021	2023	2022	2021
Salaries	**1,221**	1,180	1,110	**1,137**	1,101	1,034
Other related expenses including study funds, vacation and sick days	**117**	111	118	**112**	107	114
Long-term benefits	**1**	(4)	(6)	**1**	(4)	(6)
National insurance and VAT on salaries	**294**	283	276	**272**	262	256
Pension expenses (including severance pay and allowances)(1):						
Defined benefit - cost of service	**22**	23	17	**17**	17	13
Defined deposit	**76**	71	70	**73**	67	66
Other post-employment benefits and non-pension post-retirement benefits(1)(2)	**15**	16	16	**14**	14	14
Total salaries and related expenses	**1,746**	1,680	1,601	**1,626**	1,564	1,491

(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 4 million and NIS 3 million consolidated and the bank, respectively (2022 and 2021 - 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		
	2023	2022	2021	2023	2022	2021
Pension expenses (including severance pay and allowances), defined benefit (excluding cost of service)	**37**	35	28	**36**	34	28
Reductions, Dismissals(1)	**(1)**	3	36	**(1)**	3	36
Marketing and advertising	**66**	56	50	**57**	48	43
Communications	**68**	60	58	**66**	58	56
Computer	**154**	139	130	**151**	136	127
Office	**7**	7	8	**6**	6	7
Insurance	**15**	18	13	**13**	16	12
Legal, audit and consultancy	**54**	53	54	**41**	40	40
Directors' fees and fees for participation in meetings	**7**	8	6	**5**	6	4
Professional instruction and training	**3**	3	3	**3**	3	3
Commissions	**155**	152	150	**166**	163	161
Other	**103**	96	70	**99**	91	67
Total other expenses	**668**	630	606	**642**	604	584

(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		
	2023	2022	2021	2023	2022	2021
Current taxes in respect of the current year	**1,271**	948	674	**1,146**	861	604
Current taxes in respect of prior years	**(33)**	(4)	(9)	**(32)**	(4)	(9)
Total current taxes	**1,238**	944	665	**1,114**	857	595
Addition (deduction):						
Deferred taxes in respect of the current year	**(150)**	(58)	64	**(143)**	(54)	62
Deferred taxes in respect of prior years	**2**	(2)	(1)	**2**	(2)	(1)
Total deferred taxes*	**(148)**	(60)	63	**(141)**	(56)	61
Total provision for taxes	**1,090**	884	728	**973**	801	656
(*) Deferred taxes						
Expenses (income) of deferred taxes before effect of items detailed below	**(148)**	(60)	63	**(141)**	(56)	61
Decrease from carry forward losses	**-**	-	-	**-**	-	-
Total deferred taxes	**(148)**	(60)	63	**(141)**	(56)	61

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		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**
Profit before taxes	**3,239**	2,536	2,114	**2,900**	2,299	1,906
Prevailing tax rate	**34.2%**	34.2%	34.2%	**34.2%**	34.2%	34.2%
Tax at the prevailing tax rate	**1,108**	867	723	**992**	786	651
Tax (saving) in respect of:						
Non-deductible expenses	**10**	15	10	**7**	12	8
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	**7**	11	7	**7**	11	7
Exempt income for tax purposes	**(3)**	-	(1)	**(3)**	-	(1)
Adjustment and differences of depreciation and capital gain	**(1)**	(1)	-	**(1)**	(1)	1
Taxes in respect of prior years	**(31)**	(6)	(10)	**(30)**	(6)	(10)
Other differences	**-**	(2)	(1)	**-**	(2)	(1)
Provision for taxes on profit	**1,090**	884	728	**973**	801	656

C. TAX ASSESSMENTS AND ADDITIONAL MATTERS RELATING TO THE PROVISION FOR TAXES

(1) In January 2024, the Bank received final tax assessment for the tax year 2018.

(2) The investee companies have final tax assessments up to and including the tax year 2018.

D. SPECIAL PAYMENT TO ACHIEVE THE GOALS OF THE BUDGET BILL (PROVISIONAL INSTRUCTION SWORDS OF IRON), 2024.

As of date of publication of this Report, the Finance Committee of the Knesset approved for second and third readings, the Bill, according to which the banks would make a special payment at the rate of 6% of earning for the years 2024 and 2025. In 2024, the rate of the tax would be computed based on the proportionate part of earnings as from the effective date of the Act.

It has been further determined that to the extent that the amount of the annual payment of all the paying banks in respect of 2024 shall exceed NIS 1.2 billion, or in respect of 2025, shall exceed NIS 1.3 billion, the paying bank would be reimbursed for the difference between the amount of the annual payment of all the paying banks and the maximum amount for that year, in proportion to the share of each bank in the payment.

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

E. DETAILS OF DEFERRED TAX ASSETS AND LIABILITIES – CONSOLIDATED

	For the year ended December 31, 2023					
	Balance as at December 31, 2022	Changes allocated to profit and loss	Changes allocated to comprehensive profit	Changes allocated to capital	Balance as at December 31, 2023	Average tax rate 2023
Deferred tax assets						
Provision for credit losses	**410**	**149**	**-**	**-**	**559**	**34.2%**
Provision for vacation pay and other benefits to employees	**111**	**(3)**	**-**	**-**	**108**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**205**	**12**	**(7)**	**-**	**210**	**34.2%**
Balance of deferred tax assets, gross	**726**	**158**	**(7)**	**-**	**877**	
Provision for deferred tax asset	**-**	**-**	**-**	**-**	**-**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**726**	**158**	**(7)**	**-**	**877**	
Balance of available for setoff against deferred tax assets					**(115)**	
					762	
Deferred tax liabilities						
Adjustment of depreciable non-monetary assets	**73**	**2**	**-**	**-**	**75**	**34.2%**
Investments in affiliates	**67**	**19**	**-**	**-**	**86**	**11.2%**
Securities	**-**	**1**	**-**	**-**	**1**	
Balance of deferred tax liability, gross	**140**	**22**	**-**	**-**	**162**	
Balance of available for setoff against deferred tax liabilities					**(115)**	
					47	
Balance of deferred tax assets, net	**586**				**715**	

	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	

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, 2023					
	Balance as at December 31, 2022	Changes allocated to profit and loss	Changes allocated to comprehensive profit	Changes allocated to capital	Balance as at December 31, 2023	Average tax rate 2023
Deferred tax assets						
Provision for credit losses	**381**	**142**	**-**	**-**	**523**	**34.2%**
Provision for vacation pay and other benefits to employees	**109**	**(3)**	**-**	**-**	**106**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**195**	**12**	**(7)**	**-**	**200**	**34.2%**
Balance of deferred tax assets, gross	**685**	**151**	**(7)**	**-**	**829**	
Provision for deferred tax asset	**-**	**-**	**-**	**-**	**-**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**685**	**151**	**(7)**	**-**	**829**	
Balance of available for setoff against deferred tax assets					**(115)**	
					714	
Deferred tax liabilities						
Adjustment of depreciable non-monetary assets	**73**	**2**	**-**	**-**	**75**	**34.2%**
Investments in affiliates	**67**	**19**	**-**	**-**	**86**	**11.2%**
Securities	**-**	**1**	**-**	**-**	**1**	
Balance of deferred tax liability, gross	**140**	**22**	**-**	**-**	**162**	
Balance of available for setoff against deferred tax liabilities					**(115)**	
					47	
Balance of deferred tax assets, net	**545**				**667**	

	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	

F. 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 2023, 2022 and 2021
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, 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 January 1, 2023	**(222)**	**(109)**	**(331)**	**(28)**	**(303)**
Net changes during the year	**140**	**17**	**157**	**9**	**148**
Balance as of December 31, 2023	**(82)**	**(92)**	**(174)**	**(19)**	**(155)**

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, 2023			For the year ended December 31, 2022			For the year ended December 31, 2021		
	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	**217**	**(74)**	**143**	(767)	262	(505)	(81)	28	(53)
Losses (gains) in respect of available for sale bonds reclassified to income statement[(1)]	**(4)**	**1**	**(3)**	326	(111)	215	108	(37)	71
Net changes during the year	**213**	**(73)**	**140**	(441)	151	(290)	27	(9)	18
Employee benefits:									
Net actuarial gain (loss)	**17**	**(5)**	**12**	216	(73)	143	(82)	28	(54)
Net losses reclassified to the income statement[(2)]	**8**	**(3)**	**5**	19	(7)	12	58	(20)	38
Net change during the year	**25**	**(8)**	**17**	235	(80)	155	(24)	8	(16)
Changes in the components of cumulative other comprehensive loss attributed to non-controlling interests									
Total changes during the year	**13**	**(4)**	**9**	(20)	7	(13)	-	-	-
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total changes during the year	**225**	**(77)**	**148**	(186)	64	(122)	3	(1)	2

(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	
	2023	2022	2023	2022
Cash and deposits with Central banks	**65,864**	54,320	**64,062**	53,180
Deposits with commercial banks	**3,002**	2,810	**3,410**	3,223
Total [(1)]	**68,866**	57,130	**67,472**	56,403
(1) Includes cash and deposits with banks, the initial period of which does not exceed three months	**67,557**	55,423	**65,718**	54,269

For information in respect of pledges see Note 26 below

NOTE 12 - SECURITIES

(NIS million)

COMPOSITION:

	Consolidated					
	December 31, 2023					
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	**3,285**	**3,285**	**-**	**-**	**146**	**3,139**
Of financial institutions in Israel	**79**	**79**	**-**	**-**	**4**	**75**
Of others in Israel	(5)**71**	**71**	**-**	**4**	**-**	**75**
Total debentures held to maturity	**3,435**	**3,435**	**-**	**4**	**150**	**3,289**

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	**10,160**	**10,272**	**-**	**33**	**145**	**10,160**
Of foreign governments	**10,407**	**10,397**	**-**	**14**	**4**	**10,407**
Of financial institutions in Israel	**405**	**421**	**-**	**1**	**17**	**405**
Of foreign financial institutions	**509**	**511**	**-**	**2**	**4**	**509**
Of others in Israel	**33**	**35**	**-**	**-**	**2**	**33**
Of foreign others	**41**	**42**	**-**	**-**	**1**	**41**
Total bonds available for sale	**21,555**	**21,678**	**-**	(2)**50**	(2)**173**	**21,555**

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	**543**	**465**	**-**	(3)**82**	(3)**4**	**543**
Of which: shares, the fair value of which is not ready determinable	**227**	**221**	**-**	(3)**6**	**-**	**227**
Total not for trading securities	**25,533**	**25,578**	**-**	**136**	**327**	**25,387**

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	**1,452**	**1,451**	**-**	**1**	**-**	**1,452**
Total securities	**26,985**	**27,029**	**-**	**137**	**327**	**26,839**

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 4 million.

NOTE 12 - SECURITIES (CON'T)

(NIS million)

	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	-	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)

COMPOSITION:

	The Bank					
	December 31, 2023					
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	3,154	3,154	-	-	137	3,017
Of financial institutions in Israel	79	79	-	-	4	75
Of others in Israel	(5)71	71	-	4	-	75
Total debentures held to maturity	3,304	3,304	-	4	141	3,167

B. Bonds available for sale	Book value	Amortized cost	Provision for credit losses	Cumulative other comprehensive income: Profits	Cumulative other comprehensive income: Losses	Fair value (1)
Of Israeli government	9,333	9,427	-	31	125	9,333
Of foreign governments	10,407	10,397	-	14	4	10,407
Of financial institutions in Israel	318	333	-	1	16	318
Of foreign financial institutions	509	511	-	2	4	509
Of others in Israel	33	35	-	-	2	33
Of foreign others	41	42	-	-	1	41
Total bonds available for sale	20,641	20,745	-	(2)48	(2)152	20,641

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	543	465	-	(3)82	(3)4	543
Of which: shares, the fair value of which is not ready determinable	227	221	-	(3)6	-	227
Total not for trading securities	24,488	24,514	-	134	297	24,351

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	1,452	1,451	-	1	-	1,452
Total securities	25,940	25,965	-	135	297	25,803

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 4 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

				Cumulative other comprehensive income		
B. Bonds available for sale	Book value	Amortized cost	Provision for credit losses	Profits	Losses	Fair value [1]
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	-	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 (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, 2023
	Less than 12 months(1)				12 months and above(2)			
	Fair Value	Unrealized losses			Fair Value	Unrealized losses		
		0-20%(3)	20-40%(4)	Total		0-20%(3)	20-40%(4)	Total
Bonds held for redemption(5)								
Of Israeli Government	**122**	**9**	**-**	**9**	**2,661**	**115**	**22**	**137**
Of Israeli financial institutions	**-**	**-**	**-**	**-**	**55**	**4**	**-**	**4**
Total bonds held for redemption	**122**	**9**	**-**	**9**	**2,716**	**119**	**22**	**141**
Available for-sale bonds								
Of Israeli government	**4,145**	**47**	**-**	**47**	**2,498**	**98**	**-**	**98**
Of foreign governments	**2,601**	**3**	**-**	**3**	**908**	**1**	**-**	**1**
Of Israeli financial institutions	**94**	**2**	**-**	**2**	**221**	**15**	**-**	**15**
Of foreign financial institutions	**-**	**-**	**-**	**-**	**164**	**4**	**-**	**4**
Of others in Israel	**-**	**-**	**-**	**-**	**29**	**2**	**-**	**2**
Of foreign others	**-**	**-**	**-**	**-**	**24**	**1**	**-**	**1**
Total bonds available for sale	**6,840**	**52**	**-**	**52**	**3,844**	**121**	**-**	**121**

Consolidated								December 31, 2022
	Less than 12 months(1)				12 months and above(2)			
	Fair Value	Unrealized losses			Fair Value	Unrealized losses		
		0-20%(3)	20-40%(4)	Total		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

(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 2,988 million (31.12.2022 - NIS 3,007 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, 2023
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks Governments and bonds	Total
Recorded balance:						
Debts examined on an individual basis	**55,349**	**-**	**288**	**55,637**	**29,049**	**84,686**
Debts examined on a collective basis	**6,302**	**35,450**	**21,851**	**63,603**	**-**	**63,603**
Total	**61,651**	**35,450**	**22,139**	**119,240**	**29,049**	**148,289**
Of which:						
Non-accruing debts	**394**	**205**	**91**	**690**	**-**	**690**
Debts in arrears of 90 days or more	**13**	**-**	**17**	**30**	**-**	**30**
Other problematic debts	**823**	**68**	**157**	**1,048**	**-**	**1,048**
Total problematic debts	**1,230**	**273**	**265**	**1,768**	**-**	**1,768**
Provision for credit losses:						
In respect of debts examined on an individual basis	**900**	**-**	**7**	**907**	**2**	**909**
In respect of debts examined on a collective basis	**108**	**181**	**422**	**711**	**-**	**711**
Total	**1,008**	**181**	**429**	**1,618**	**2**	**1,620**
Of which: non-accruing debts	**121**	**12**	**28**	**161**	**-**	**161**
Of which: other problematic debts	**137**	**3**	**25**	**165**	**-**	**165**

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

(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, 2023
	Credit to the public				Banks	
	Commercial	Housing	Other private	Total	Governments and bonds	Total
Recorded balance:						
Debts examined on an individual basis	**54,307**	**-**	**288**	**54,595**	**27,726**	**82,321**
Debts examined on a collective basis	**6,238**	**35,450**	**16,835**	**58,523**	**-**	**58,523**
Total	**60,545**	**35,450**	**17,123**	**113,118**	**27,726**	**140,844**
Of which:						
Non-accruing debts	**389**	**205**	**72**	**666**	**-**	**666**
Debts in arrears of 90 days or more	**13**	**-**	**16**	**29**	**-**	**29**
Other problematic debts	**792**	**68**	**125**	**985**	**-**	**985**
Total problematic debts	**1,194**	**273**	**213**	**1,680**	**-**	**1,680**
Provision for credit losses:						
In respect of debts examined on an individual basis	**879**	**-**	**7**	**886**	**2**	**888**
In respect of debts examined on a collective basis	**108**	**181**	**345**	**634**	**-**	**634**
Total	**987**	**181**	**352**	**1,520**	**2**	**1,522**
Of which: non-accruing debts	**121**	**12**	**22**	**155**	**-**	**155**
Of which: other problematic debts	**133**	**3**	**20**	**156**	**-**	**156**

The Bank						December 31, 2022
	Credit to the public				Banks	
	Commercial	Housing	Other private	Total	Governments and bonds	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

(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, 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**
Expenses in respect of credit losses	**314**	**40**	**148**	**502**	**-**	**502**
- Accounting write-offs	**(85)**	**(9)**	**(122)**	**(216)**	**-**	**(216)**
- Collection of debts written off accounting wise in previous years	**85**	**7**	**93**	**185**	**-**	**185**
Net accounting write-offs	**-**	**(2)**	**(29)**	**(31)**	**-**	**(31)**
Balance of provision for credit losses as of December 31, 2023	**1,131**	**189**	**463**	**1,783**	**2**	**1,785**
Of which: In respect of off-balance sheet credit instruments						
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
Balance of provision for credit losses as of December 31, 2023	**123**	**8**	**34**	**165**	**-**	**165**

* The effect of the initial implementation of Reporting to the Public Directives in respect of expected credit losses.

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, 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**
Expenses in respect of credit losses	**311**	**40**	**133**	**484**	**-**	**484**
- Accounting write-offs	**(84)**	**(9)**	**(107)**	**(200)**	**-**	**(200)**
- Collection of debts written off accounting wise in previous years	**83**	**7**	**80**	**170**	**-**	**170**
Net accounting write-offs	**(1)**	**(2)**	**(27)**	**(30)**	**-**	**(30)**
Balance of provision for credit losses as of December 31, 2023	**1,108**	**189**	**384**	**1,681**	**2**	**1,683**
Of which: In respect of off-balance sheet credit instruments						
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
Balance of provision for credit losses as of December 31, 2023	**121**	**8**	**32**	**161**	**-**	**161**

* The effect of the initial implementation of Reporting to the Public Directives in respect of expected credit losses.

NOTE 14 - CREDIT TO THE GOVERNMENT

(NIS million)

Composition:	Consolidated		The Bank	
	December 31,		December 31,	
	2023	**2022**	**2023**	**2022**
Other credit to the Government	**1,055**	866	**369**	158

NOTE 15 - INVESTEE COMPANIES

(NIS million)

A. COMPOSITION:

	Consolidated		The Bank					
	December 31, 2023	December 31, 2022	December 31, 2023			December 31, 2022		
	Equity basis investee	Equity basis investee	Equity basis investee	Consolidated subsidiaries	Total	Equity basis investee	Consolidated subsidiaries	Total
Investments in shares on equity basis	**786**	687	**786**	**851**	**1,637**	687	711	1,398
Other investments:								
Capital notes and subordinated capital notes	**-**	-	**-**	**5**	**5**	-	5	5
Total investments in investee companies	**786**	687	**786**	**856**	**1,642**	687	716	1,403
Earnings accumulated since acquisition, net	**487**	405	**487**	**1,288**	**1,775**	405	1,156	1,561
Items accrued in equity capital since purchase date:								
Adjustments in respect of presenting available-for-sale bonds at fair value	**-**	-	**-**	**(7)**	**(7)**	-	(15)	(15)
Employee benefits	**-**	(3)	**-**	**(1)**	**(1)**	(3)	(2)	(5)
Other	**(10)**	-	**(10)**	**(4)**	**(14)**	-	(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		
	2023	2022	2021	2023	2022	2021
						NIS millions
The Bank's share in operating profits of investee companies	**127**	83	78	**259**	178	164
Current taxes	**(2)**	(13)	-	**(2)**	(13)	-
Provision for deferred taxes	**(12)**	4	(9)	**(12)**	4	(9)
The Bank's share in operating profits of investee companies, after tax	**113**	74	69	**245**	169	155

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	
		2023	**2022**	**2023**	**2022**	**2023**	**2022**
		%	%	%	%		NIS million
Israeli consolidated subsidiaries:							
Bank Massad Ltd.	Commercial Bank	**51.0**	51.0	**51.0**	51.0	**598**	496
UBank trust company Ltd.	Trust services	**100.0**	100.0	**100.0**	100.0	**145**	116
Equity basis investee:							
Israel Credit Cards Ltd.	Credit Cards	**28.2**	28.2	**21.0**	21.0	**786**	687

(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							
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
		NIS million		NIS million		NIS million		NIS million
	-	-	**93**	61	**-**	-	**9**	(4) (17)
	-	-	**29**	28	**-**	-	**-**	-
	-	-	**127**	83	**(21)**	(118)	(4) **(7)**	9

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, 2023	**28.2**	**19,378**	**16,931**	**2,447**
December 31, 2022	28.2	18,547	16,427	2,120

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, 2023	**28.2**	**450**
For the year ended December 31, 2022	28.2	309
For the year ended December 31, 2021	28.2	271

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, 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
Additions	**21**	**31**	**52**	**20**	**31**	**51**
Disposals	**(41)**	**(1)**	**(42)**	**(40)**	**-**	**(40)**
At December 31, 2023	**1,388**	**654**	**2,042**	**1,338**	**651**	**1,989**
Accumulated depreciation (2)						
Balance as 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
Depreciation	**36**	**28**	**64**	**34**	**28**	**62**
Disposals	**(28)**	**(1)**	**(29)**	**(27)**	**-**	**(27)**
At December 31, 2023	**599**	**566**	**1,165**	**569**	**565**	**1,134**
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
Amortized balance as at December 31, 2023	**789**	**88**	**877**	**769**	**86**	**855**
Weighted average depreciation rate in % as at 31.12.23	**3.9%**	**16.3%**		**3.8%**	**16.4%**	
Weighted average depreciation rate in % as at 31.12.22	4.0%	15.8%		3.9%	15.9%	

(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 351 million (December 31, 2022 - NIS 357 million). Of this amount are rental or leasehold rights for periods not exceeding 49 years from balance sheet date in the amount of NIS 275 million (December 31, 2022 - NIS 285 million). The Bank and its subsidiaries own rights to property by way of capitalized leaseholds in the amount of NIS 294 million (December 31, 2022 - NIS 304 million).

C. Land rights totaling NIS 274 million (31.12.22 - NIS 295 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 16 million (31.12.22 - NIS 10 million).

E. The group has in use assets that were fully depreciated. The cost of these assets as of December 31, 2023 amounted to NIS 697 million (31.12.22 - NIS 636 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,		
	2023	2022	2021	2023	2022	2021
			NIS million			NIS million
Expenses in respect of operating leases	**72**	74	77	**66**	68	71
Variable lease expenses	**5**	2	-	**4**	2	-
Total expenses in respect of leases	**77**	76	77	**70**	70	71

2. Additional information regarding leases

			Consolidated			The Bank
	For the year ended December 31,			For the year ended December 31,		
	2023	2022	2021	2023	2022	2021
			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	**77**	76	76	**71**	70	70
Right of use assets recognized in respect of new operating leases	**51**	20	37	**49**	19	28
Balance of weighted average period (in years) in respect of operating leases	**3.8**	4.0	4.4	**3.8**	4.0	4.4
Weighted average discounting interest in respect of operating leases (in percentages)	**1.96**	1.59	0.92	**2.02**	1.66	0.93

NOTE 16 - PREMISES AND EQUIPMENT (CONT'D)

(NIS million)

3. Non capitalized cash flows and liabilities in respect of operating leases

				Consolidated
	December 31, 2023		December 31, 2022	
	Noncapitalized cash flows	Liability for leases	Noncapitalized cash flows	Liability for leases
				NIS million
Up to one year	**69**	**68**	68	68
Over one to two years	**62**	**60**	60	58
Over two to three years	**54**	**52**	54	51
Over three to four years	**45**	**42**	47	44
Over four to five years	**38**	**34**	40	37
Over five years	**133**	**111**	142	120
Total	**401**	**367**	411	378

				The Bank
	December 31, 2023		December 31, 2022	
	Noncapitalized cash flows	Liability for leases	Noncapitalized cash flows	Liability for leases
				NIS million
Up to one year	**63**	**62**	63	62
Over one to two years	**56**	**54**	55	53
Over two to three years	**49**	**47**	49	46
Over three to four years	**40**	**37**	42	40
Over four to five years	**33**	**30**	36	32
Over five years	**121**	**100**	129	108
Total	**362**	**330**	374	341

NOTE 17 - INTANGIBLE ASSETS
(NIS million)

	Consolidated			The Bank
	Customers relations	Software	Total	Software
Cost				
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
Addition	**-**	**133**	**133**	**133**
Disposals	**-**	**-**	**-**	**-**
At December 31, 2023	**540**	**1,680**	**2,220**	**1,679**
Amortization				
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
Amortization for the year	**2**	**120**	**122**	**120**
Disposals	**-**	**-**	**-**	**-**
At December 31, 2023	**536**	**1,356**	**1,892**	**1,355**
Book value				
At December 31, 2021	6	294	300	294
At December 31, 2022	6	311	317	311
At December 31, 2023	**4**	**324**	**328**	**324**

NOTE 18 - OTHER ASSETS
(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
Deferred taxes, net (see Note 8)	**762**	630	**714**	589
Income tax advances, net of provisions and other institutions	**3**	18	**3**	12
Assets relating to MAOF market activity	**10**	26	**10**	26
Right-of-use assets in respect of operating lease	**364**	375	**328**	338
Other receivables and debit balances	**227**	196	**238**	201
Total other assets	**1,366**	1,245	**1,293**	1,166

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	
	2023	**2022**	**2023**	**2022**
Demand				
- Non-bearing interest	**45,145**	55,633	**41,085**	51,060
- Bearing interest	**22,410**	26,852	**21,791**	25,870
Total demand	**67,555**	82,485	**62,876**	76,930
Fixed-term	**123,570**	85,784	**121,206**	84,610
Total deposits in Israel*	**191,125**	168,269	**184,082**	161,540
* Of which:				
Deposits of private individuals	**83,940**	78,552	**75,344**	70,319
Deposits of institutional entities	**51,976**	37,805	**51,972**	37,799
Deposits of corporates and others	**55,209**	51,912	**56,766**	53,422

B. DEPOSITS OF THE PUBLIC BY SIZE (CONSOLIDATED)

	December 31	
Maximum amount of deposit	**2023**	**2022**
Up to 1	**59,960**	57,871
From 1 to 10	**42,448**	39,447
From 10 to 100	**20,887**	20,632
From 100 to 500	**11,337**	10,857
Over 500	**56,493**	39,462
Total	**191,125**	168,269

NOTE 20 - DEPOSITS FROM BANKS
(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2023	**2022**	**2023**	**2022**
In Israel				
Commercial Banks:				
Demand deposits	**1,687**	558	**1,674**	576
Fixed-term deposits	**-**	9	**2,043**	2,393
Acceptances	**42**	57	**42**	57
Central banks:				
Fixed-term deposits	**2,585**	4,197	**2,585**	4,197
Total deposits from banks	**4,314**	4,821	**6,344**	7,223

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	%	2023	2022	2023	2022
Bonds and subordinated capital notes in -						
- Non-linked Israeli currency	**0.01**	**6.87**	**2**	4	**2**	4
- Israeli currency linked to the CPI	**4.93**	**1.75**	**4,765**	4,745	**2,440**	2,361
Total bonds and non-convertible subordinated capital notes(2)			**4,767**	4,749	**2,442**	2,365
Including: subordinated capital notes			**2,442**	2,365	**2,442**	2,365

(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, 2023, and related to the consolidated statements.

(2) Of which: registered for trade at the Tel Aviv Stock Exchange, bonds in the amount of NIS 2,325 million and subordinated capital notes in the amount of NIS 2,412 million (December 31, 2022 - bonds in the amount of NIS 2,384 million and subordinated capital notes in the amount of NIS 2,318 million).

NOTE 22 - OTHER LIABILITIES

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
Deferred tax liabilities, net (see Note 8)	**47**	44	**47**	44
Provision for current taxes, net of advance tax payments	**165**	267	**148**	261
Excess of provision for severance pay over amounts funded (see note 23)	**601**	575	**592**	567
Income received in advance	**71**	80	**68**	77
Creditors in respect of credit cards activity	**1,961**	2,218	**1,613**	1,843
Liabilities relating to MAOF market activity	**10**	26	**10**	26
Creditors in respect of salaries and related costs (see also Note 23)	**544**	599	**494**	551
Short selling of securities	**1**	-	**1**	-
Liabilities in respect of operating leases	**367**	378	**330**	341
Other creditors and Credit balances	**440**	335	**419**	310
Total other liabilities	**4,207**	4,522	**3,722**	4,020

NOTE 23 - EMPLOYEE BENEFITS

A. DESCRIPTION OF THE TERMS OF EMPLOYMENT OF THE GROUP'S EMPLOYEES

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.

7. Collective labor agreements

The Bank had entered into collective labor agreements that determine linkage of certain employment terms applying to a part of the Bank employees, to agreements signed between the Management of Bank Leumi Le'Israel B.M. (hereinafter "BLL") and the organization of BLL employees.
On April 16, 2023, BLL announced the signature of a labor agreement for the years 2023-2026, with the organization of BLL employees.
On July 13, 2023, and on August 16, 2023, the Bank together with the Federation of Labor, the clerks representative committee and the signatories committee respectively, signed collective labor agreements for the years 2023-2026, following the agreement signed at BLL, as stated above.

The agreement stated principles for the payment of a selective supplement to employees for the years 2023-2026. Furthermore, employee social terms and additional benefits have been improved, the model for permanent employment has been modified to that accepted in the banking system, and the number of employees engaged under technological agreements has been increased.
On July 13, 2023, MATAF, the MATAF employee representative committee and the Federation of Labor signed a collective labor agreement for the years 2023-2025. The agreement stated principles for the payment of a selective supplement to employees for the years 2023-2025. Also regularized was the distant work procedure, the number of employees who may be engaged under personal employment agreements has been increased and flexibility has been allowed in engaging outsiders for particular project work.
In December 2023, an agreement was signed in Massad Bank with the employees committee for the years 2023-2027. The salaries of the employees of Massad is linked to the salaries agreement of Bank Hapoalim and is based on the agreement signed in Bank Hapoalim signed in August 2023.

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,	
	2023	2022	2023	2022
	(NIS million)		(NIS million)	
Pension and severance pay				
Amount of liability	**865**	833	**759**	734
Fair value of assets of the scheme	**(264)**	(258)	**(167)**	(167)
Excess liabilities over assets of the scheme	**601**	575	**592**	567
Excess liabilities of the scheme included in the item "other liabilities"	**601**	575	**592**	567
Long-service awards - amount of liability	**15**	15	**14**	14
Benefit regarding unused sick leave - amount of liability	**27**	27	**27**	27
Other post-employment benefits	**9**	9	**9**	9
Other post-retirement benefits	**188**	198	**170**	178
Vacation pay	**73**	74	**68**	69
Other	**232**	276	**206**	254
Total				
Excess liabilities regarding employee benefits over assets of the scheme included in the item "other liabilities"	**1,145**	1,174	**1,086**	1,118

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,	
	2023	2022	2023	2022
	(NIS million)		(NIS million)	
A. Change in liability regarding anticipated benefits				
Liability regarding anticipated benefit at beginning of period	**833**	987	**198**	236
Cost of service	**25**	26	**4**	5
Cost of interest	**38**	30	**9**	8
Actuarial loss (gain)**	**9**	(171)	**(19)**	(47)
Benefits paid	**(40)**	(39)	**(4)**	(4)
Liability regarding anticipated benefit at end of period	**865**	833	**188**	198
Liability regarding cumulative benefit at end of period	**724**	702	**185**	195
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	**258**	297	**-**	-
Actual return on assets of the scheme	**12**	(7)	**-**	-
Deposits in the scheme by the Bank	**9**	9	**-**	-
Benefits paid	**(15)**	(41)	**-**	-
Fair value of assets of the scheme at end of period	**264**	258	**-**	-
Financing situation - net liability recognized at end of period*	**601**	575	**188**	198

* Included in the item "Other liabilities".

** In 2023 – The actuarial loss in respect of severance pay and pension schemes stemmed mainly from updating actuarial reserves following the signing of collective agreements (see item A(7) above), offset by actuarial gain stemming from an increase in the discounting interest rate. In 2022 the actuarial gain stemmed from an increase in the discounting interest rate.
In the years 2023 and 2022 the actuarial gain in respect of other post-retirement benefits stemmed mainly from an increase in the discounting interest rate.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

	Severance pay, and pension schemes		Other post-retirement benefits	
	December 31,		December 31,	
	2023	2022	2023	2022
	(NIS million)		(NIS million)	
C. Amounts recognized in the consolidated balance sheet				
Amounts recognized in the item "other liabilities"	**601**	575	**188**	198
Net liability recognized at end of period	**601**	575	**188**	198
D. Amounts recognized in other cumulative comprehensive loss, before the tax effect				
Actuarial loss, net	**116**	117	**12**	33
Closing balance in other cumulative comprehensive loss	**116**	117	**12**	33
E. Schemes in which the liability regarding cumulative benefits exceed the assets of the scheme				
Liability regarding anticipated benefit	**865**	833	**188**	198
Liability regarding cumulative benefit	**724**	702	**185**	195
Fair value of assets of the scheme	**264**	258	**-**	-

(2) Expense for the period

	Severance pay, and pension schemes			Other post-retirement benefits		
	December 31,			December 31,		
	2023	2022	2021	2023	2022	2021
	(NIS million)			(NIS million)		
A. Cost components of net benefit recognized in profit and loss						
Cost of service	**25**	26	20	**4**	5	5
Cost of interest	**38**	30	18	**9**	8	6
Anticipated return on assets of the scheme	**(9)**	(8)	(7)	**-**	-	-
Amortization of non-recognized amounts:						
Net actuarial loss	**8**	13	17	**2**	3	5
Dismissal	**(1)**	3	36	**-**	-	-
Capitalized cost of software	**(3)**	(3)	(3)	**-**	-	-
Total cost of benefits, net	**58**	61	81	**15**	16	16
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	**6**	(156)	70	**(19)**	(47)	10
Amortization of actuarial loss	**(8)**	(13)	(17)	**(2)**	(3)	(5)
Dismissal	**1**	(3)	(36)	**-**	-	-
Total recognized in other comprehensive loss (profit)	**(1)**	(172)	17	**(21)**	(50)	5
Total net cost of benefit	**58**	61	81	**15**	16	16
Total net cost of benefit for the period recognized in other comprehensive loss (profit)	**57**	(111)	98	**(6)**	(34)	21

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,	
	2023	2022	2023	2022
		percent		percent
1. Principal guidelines used to determine the liability for benefits				
Nominal discounting rate *	**4.7**	4.4	**5.0**	4.5
Forecasted rate of rise in the CPI	**2.7**	2.6	**2.8**	2.7
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	**1.1-6.7**	1.1-5.2	**0.0-3.7**	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,		
	2023	2022	2021	2023	2022	2021
			percent			percent
2. Principal guidelines used to measure the net cost of benefits for the period						
Real discounting rate *			0.0-0.3			0.6-0.8
Nominal discounting rate *	**4.4-4.9**	2.2-4.4		**4.5-5.1**	3.0-4.7	
Anticipated long-term return on assets of the scheme	**3.3-3.6**	2.0-2.8	1.5-2.0			
Rate of increase in nominal-term compensation	**1.1-6.7**	1.1-5.2	1.1-5.2	**0.0-3.7**	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,	
	2023	2022	2023	2022	2023	2022	2023	2022
		(NIS million)		(NIS million)		(NIS million)		(NIS million)
Discounting rate	**(48)**	(49)	**57**	60	**(29)**	(32)	**37**	42
Retirement rate	**118**	112	**(98)**	(92)	**1**	(4)	**(1)**	2
Rate of increase in compensation	**58**	62	**(48)**	(51)	**1**	1	**(1)**	(1)

* Starting from 2022, the liability in respect of long term benefits is calculated using nominal actuarial model, while in previous periods, thes e 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, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(NIS million)				(NIS million)			
Cash and deposits with banks	**14**	**1**	**-**	**15**	19	3	-	22
Shares	**56**	**-**	**-**	**56**	35	-	-	35
Bonds:								
Government bonds	**43**	**31**	**-**	**74**	87	12	-	99
Corporate bonds	**46**	**7**	**-**	**53**	53	15	-	68
Total	**89**	**38**	**-**	**127**	140	27	-	167
Other	**4**	**37**	**25**	**66**	2	17	15	34
Total	**163**	**76**	**25**	**264**	196	47	15	258

B. Fair value of the assets of the scheme according to classes of assets and allotment target for 2024

	Severance pay, and pension schemes		
	Allotment target	% of scheme's assets December 31,	
	2024	2023	2022
	percent		
Cash and deposits with banks	**5.3**	**5.7**	8.5
Shares	**21.7**	**21.2**	13.6
Bonds:			
Government bonds	**29.2**	**28.0**	38.4
Corporate bonds	**22.9**	**20.1**	26.4
Total	**52.1**	**48.1**	64.8
Other	**20.9**	**25.0**	13.1
Total	**100.0**	**100.0**	100.0

C. Cash flows

(1) Deposits

	Severance pay, and pension schemes		
	Forecast	Actual deposits For the year ended December 31,	
	*2024	2023	2022
	(NIS million)		
Deposits	**9**	9	9

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2024.

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)
2024	89	9
2025	45	9
2026	59	10
2027	58	10
2028	59	11
2029-2033	366	59
2034 and thereafter	708	447
Total	1,384	555

** Non-discounted values. Not including future service cost.

NOTE 24A - SHAREHOLDERS' EQUITY

A. SHARE CAPITAL - COMPOSITION:

	Authorized	Issued and paid up
	December 31	December 31
	2023 and 2022	2023 and 2022
	NIS	NIS
Ordinary shares of NIS 0.05 each	**17,500,000**	**5,016,502**

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 2022:

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS million	NIS
January 6, 2022	January 24, 2022	215	2.14
March 7, 2022	March 24, 2022	165	1.65
May 24, 2022	June 12, 2022	160	1.59
August 24, 2022	September 1, 2022	170	1.70
November 22, 2022	December 8, 2022	235	2.34
March 21, 2023	April 4, 2023	268	2.67
May 17, 2023	June 1, 2023	220	2.19
August 15, 2023	August 31, 2023	220	2.19
November 28, 2023	December 14, 2023	90	0.90

	For the year ended December 31,		
	2023	**2022**	**2021**
Dividend declared and paid by the Bank	**798**	945	545

On November 12, 2023, a letter from the Supervisor of Banks addressed to the banking system, in the matter of "Capital planning and earnings distribution policy", was received. According to the letter, the banking entities have to re-examine their dividend policy for the upcoming period on the background of the war and the increasing uncertainty in respect of its continuity and the volume of its impact on the economy.

On March 5, 2024, the Supervisor of Banks published additional letter addressed to the Banking systems in the matter, according to which, the banking entities have to re-examine their dividend distribution policy for the upcoming period on the background of the continuance of the war and the volume of its impact on the economy, which call for extra caution in the matter.

Taking into consideration the abovementioned letters of the Supervisor, and on background of the uncertainty level prevailing in the markets in Israel due to the war, as well as the continuing level of uncertainty in the markets worldwide (among other, as mentioned in the chapter of leading and developing risks, macroeconomic risk and the effect of the Swards of iron war), the Board of Directors of the Bank decided on March 12, 2024, to approve a dividend distribution in cash to the shareholders of the Bank in a total amount of NIS 269 million (gross), comprising, with the dividends distributed in the previous three quarters, approx. 50% of the net earnings of the Bank for the first half of 2023 and 20% of net earnings of the second half of 2023.

It is clarified, that no change has occurred in the dividend distribution policy of the Bank, and it remained unchanged. The Board of Directors of the Bank will continue to discuss the implementation of the dividend distribution policy of the Bank, in respect of the developments and their effect on the economy and on the Bank.

The ex-dividend date was fixed for March 20, 2024, and payment of the dividend shall be made on March 31, 2024. 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. CAPITAL ADEQUACY ACCORDING TO THE SUPERVISOR OF BANKS DIRECTIVES

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.

(1) Capital adequacy goals

In accordance with Proper Conduct of Banking Business Directives regarding the minimum capital ratios, the Bank, the total as sets 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. It should be noted that in accordance to the provisional instruction dated April 27, 2020, the requirement would not apply in respect of residential loans granted from March 19, 2020 until the end of the provisional instruction (September 30, 2021).

On December 27, 2021, in the framework of amending 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, 2023, 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 considera tion 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,	
	2023	**2022**
		(NIS million)
A. Consolidated		
a. Capital for calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	**12,292**	10,802
Tier 2 capital after deductions	**3,569**	3,448
Total overall capital	**15,861**	14,250
b. Weighted balances of risk assets		
Credit risk	(2)**97,053**	(2)94,786
Market risk	**886**	789
Operational risk	**10,360**	8,061
Total weighted balances of risk assets	**108,299**	103,636
		percent
c. Ratio of capital to risk assets		
Ratio of tier 1 capital to risk assets	**11.35%**	10.42%
Ratio of comprehensive capital to risk assets	**14.65%**	13.75%
Minimal ratio of Tier 1 equity capital required by the Supervisor of banks	(1)**9.24%**	(1)9.24%
Minimal ratio of comprehensive capital required by the Supervisor of Banks	(1)**12.50%**	(1)12.50%
		percent
B. Significant Subsidiary		
Massad Bank Ltd.		
Ratio of Tier 1 equity capital to risk assets	**18.06%**	15.12%
Ratio of comprehensive capital to risk assets	**19.16%**	16.25%
Minimal ratio of Tier 1 equity capital required by the Supervisor of banks	**9.00%**	9.00%
Minimal ratio of comprehensive capital required by the Supervisor of Banks	**12.50%**	12.50%

(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, 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.

(2) An amount of NIS 39 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures (31.12.22 – NIS 69 million).

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

(3) Capital components for computation of capital ratio (consolidated)

	December 31,	
	2023	**2022**
		(NIS million)
A. Tier 1 equity capital		
Capital attributed to shareholders	**12,071**	10,559
Differences between capital attributed to shareholders and Tier 1 equity capital		
Non-controlling rights	**272**	265
Total Tier 1 equity capital before regulatory adjustments and deductions	**12,343**	10,824
Regulatory adjustments and deductions:		
Intangible assets	**(94)**	(96)
Regulatory adjustments and other deductions- Tier 1 equity capital	**(4)**	(5)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - Tier 1 equity capital	**(98)**	(101)
Total adjustments in respect of efficiency measures- Tier 1 equity capital(1)	**25**	51
Total adjustments in respect of expected credit losses- Tier 1 equity capital(2)	**22**	28
Total Tier 1 equity capital after regulatory adjustments and deductions	**12,292**	10,802
B. Tier 2 capital		
Tier 2 capital: instruments before deductions	**2,377**	2,296
Tier 2 capital: provisions before deductions	**1,192**	1,152
Total tier 2 capital before deductions	**3,569**	3,448
Deductions:		
Total deductions- Tier 2 capital	**-**	-
Total Tier 2 capital	**3,569**	3,448

(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,	
	2023	**2022**
		(NIS million)
Ratio of tier 1 equity capital to risk assets before effect of adjustments	**11.31%**	10.28%
Effect of adjustments in respect of efficiency measures(1)	**0.02%**	0.05%
Effect of adjustments in respect of expected credit losses(2)	**0.02%**	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	**11.35%**	10.42%

(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) were 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.

The volume of the efficiency measures in manpower, as from the years 2018 and 2020, in respect of which the relieves are applicable, amounted to NIS 118 million, net after tax.

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, 2023 to be lower by 0.02% on Tier 1 equity capital.

(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, 2023, the implementation would have resulted in an additional decrease of 0.02% in the capital adequacy ratios.

(7) Factors that might materially affect the capital adequacy of the Bank and of its significant subsidiary

(7a.) 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, 2023:

	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)	**0.09**	**0.10**
Massad Bank	**1.55**	**2.42**

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

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.

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 December 20, 2023, the relief will be valid until December 31, 2025. Banking corporation which will make use of the relief on December 31, 2025, will be required to return to the leverage ratio prevailing before the provisional instruction within two quarters, thus, at the end of the validity of the provisional instruction, the leverage ratio of the banking corporation will not be less than the actual minimal leverage ratio or the minimal leverage ratio applying to the banking corporation prior to the Provisional Instruction, whichever is lower.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

	December 31, 2023	December 31, 2022
		NIS million
A. Consolidated		
Tier 1 capital*	**12,292**	10,802
Total exposures	**233,669**	207,943
		percent
Leverage ratio	**5.26%**	5.19%
B. Significant Subsidiary		
Massad Bank Ltd.		
Leverage ratio	**9.40%**	8.15%
Minimal leverage ratio required by the Supervisor of Banks	**4.50%**	4.50%

* For the effect of adjustments in respect of efficiency measures and initial implementation of accounting principles in respect of expected credit losses, 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	
	2023	2022
		percent
1. Consolidated*		
Liquidity coverage ratio	**156%**	127%
2. The Bank*		
Liquidity coverage ratio	**156%**	127%
3. Significant Subsidiary*		
Massad Bank Ltd.		
Liquidity coverage ratio	**544%**	261%
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.

		December 31, 2023	December 31, 2022
			percent
1.	**Consolidated**		
	Net stable funding ratio	**146%**	133%
2	**Significant Subsidiary**		
	Bank Massad Ltd.		
	Net stable funding ratio	**163%**	150%
	Minimal net stable funding ratio required by the Supervisor of banks	**100%**	100%

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	
	2023	2022
Balance of loans granted out of deposits repayable to the extent of collection of the loans (2)		
Non-linked Israeli currency	**10**	11
CPI linked Israeli currency	**220**	237
Total	**230**	248

(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 85 million, consolidated and in the Bank (December 31, 2022 - NIS 83 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
	2023						2022
	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**	**1**	**1**	**1**	**1**	**5**	6
Expected future flows, net of management's estimate of premature repayments	**1**	**1**	**1**	**1**	**-**	**4**	5
Discounted future flows, net of management's estimate of premature repayments(2)	**1**	**1**	**1**	**1**	**-**	**4**	5

(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 1.5% (2022 - 1.1%).

Information as to the granting of housing loans during the year

	December 31	
	2023	2022
Loans granted out of deposits repayable to the extent of collection of the loans	**12**	17
Standing loans	**5**	13

B. OTHER CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
Improvements to premises and acquisition of new premises, equipment and software	**10**	13	**10**	13
Commitments to invest in private investment funds	**103**	151	**103**	151

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.

On July 6, 2023, the General Meeting of Shareholders, after obtaining approvals by the Compensation Committee and by the Board of Directors, approved an additional updating of the letter of indemnity, the essence if which is the updating of the list of anticipated events stated in the Addendum, in view of the activities of the Bank and as accepted by the banking system, as well as the modification of the letter of indemnity in accordance with regulatory changes in recent years, and the new legislation regarding the principal business lines of the Bank in particular. In accordance therewith, the amended indemnification liabilities were granted 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, 2020 and recently on July 6, 2023, 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, which had been updated on the said date, 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.

Since February 23, 2017, the compensation policy, as approved by the General Meeting of Shareholders, stated that the granting of 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 had initially been appointed prior to that date and who are entitled to exemption under decisions taken by the Bank in the past.

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 includes in their respect the said qualification, and all in accordance with the compensation policy of the Bank, as stated above. It is noted that the Bank has not tabled for ratification by the General Meeting of Shareholders the letters of exemption granted in 2004 to Directors holding a controlling interest in the Bank.

Likewise, indemnification obligations 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.

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 commitments had been given to Directors who officiated in companies controlled by the Bank, which were voluntarily liquidated or sold over seven years ago.

2. 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.

3. 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 as of December 31, 2023, amounts to NIS 300 million (December 31, 2022 - NIS 162 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 29 million as of December 31, 2023, in comparison with NIS 58 million on December 31, 2022.

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 as of December 31, 2023, is NIS 213 million (December 31, 2022 - NIS 218 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. Failure arrangements in the Central Bank Clearing (MASAB) and Automated Banking Services (ATM) payment systems - Within the framework of Bank of Israel guidelines for the matching of the payments system operations to accepted international arrangements (PFMI standards), failure arrangements have been formed for these payment systems, with a view of ensuring the timely conclusion of the daily clearing in case of failure of a participant. The failure arrangements relevant to the whole banking system have been formed by Bank of Israel, operators of the systems and the participants therein, and they state detailed principles and procedures, which allow the operator of the system, in case of failure of a participant, to continue and conduct the daily clearing in full and in time, while using the funds deposited as collateral in designated accounts with Bank of Israel, in favor of the failure arrangement by the participant in the system, and which are managed on their behalf by operators of the system. The amount of collateral which each bank has to deposit as part of the failure arrangement, is determined in accordance with the volume of operations of each bank in each payment system. The failure arrangement regarding the MASAB system became effective on May 1, 2023, and that regarding the ATM system became effective on April 30, 2023.

Participants in the payments systems are promoting the drafting of agreements for the pledging of the said collateral funds in favor of all participants.

H. 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 June 5, 2023, an action brief together with a motion for approval of the action as a class action suit were received by the Bank. The claim relates to interest on credit balances in current accounts, and the amount claimed therein, which is attributed to all the Defendant banks (4 in number), amounts to between NIS 3.4 and NIS 4.8 billion. As argued in the motion, the nonpayment of interest to customers on the credit balances held in their current accounts with the banks, whether by way of directly crediting the interest and/or by way of automatically creating a deposit bearing daily interest, or in any other way, comprises unlawful conduct and lack of proper disclosure, lack of good faith, exploitation, taking advantage and violation of binding agreements and the law, as well as unjust enrichment. The motion also raises arguments regarding avoidance of information to customers regarding suitable options open to them in case of current account credit balances (which bear no interest at all), offering them suitable real-time solutions in order that such credit balances would earn some interest.

3. On June 25, 2023, an action brief together with a motion for approval of the action as a class action suit were received by the Bank. The amount stated in the action, which is attributed to all the Defendant banks (5 in number), is NIS 5 billion, and the action relates to interest on credit extended by the banks, where such credit bears variable interest on the basis of the "prime" rate (hereinafter – "the credit"). As argued in the motion, the banks are not permitted to raise the interest charged on credit at exactly the same rate at which Bank of Israel raised the interest, even though this right is seemingly established in agreements signed by customers, since the cost of sources used by banks for the purpose of extending such credit, did not rise and was not raised (due to the control of banks over these sources) at exactly the same rate (at which Bank of Israel interest was raised) but at a significantly much lower rate.

The amount of additional exposure of the Bank and of the subsidiary companies of the Bank as of December 31, 2023, 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 59 million.

I. Furthermore, a motion for approval of a class action suit is pending against the Bank, the amount claimed therein is material, as detailed below. In the opinion of Management of the Bank, based on legal opinion, it is not possible, at this stage to assess the prospects of the claim, and no allowance has been recognized in this respect.

On July 24, 2023, the Bank received an action brief and a motion for its approval as a class action suit filed against five banks, including the Bank. The amount of the claim attributed to all the Defendant banks totals NIS 984 million, and as claimed by the Claimants, this amount grows in each month by NIS 104 million. As argued in the motion, the interest rate paid on amounts deposited by means of the direct communication channels is lower than the interest payable in practice by the banks and lower than the interest on amounts deposited to the same deposit by means of a bank clerk, and this without providing such information to customers depositing funds using the direct channels and without offering them the possibility of negotiating the interest rate with the bank. All this, as argued by the Claimants, is in contradiction with the law.

J. 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.

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 motion for approval of a compromise arrangement between the Claimants, ICC and Isracard Company was filed with the Court on July 9, 2023.

Subsequently to the signing of the compromise agreement with ICC and Isracard, MAX IT Finance Ltd. also reached an arrangement with the Claimants. In view of the terms of the arrangement between the Claimants and MAX, ICC and Isracard had requested to amend of their compromise arrangement accordingly. An amended motion for approval of the compromise arrangement was filed on December 26, 2023.

(b) 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.

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, and on November 21, 2022 ICC filed a response on its behalf. On May 21, 2023, the replies of the Respondents to the appeal were submitted. Following submission of the position of the Attorney General to the Government, a hearing of the appeal was fixed for June 19, 2024.

(c) 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. In accordance with the recommendation of the Court, the parties have started mediation proceedings.

(d) 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. However, on April 4, 2023, the mediator announced that in his opinion it is not possible at this stage to mediate between the parties. Therefore, the judicial proceedings are to be continued. A pre-trial hearing was fixed for May 8, 2024.

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 275 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). 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. ICC estimates the amount of exposure in respect of which no allowance has been recognized in the financial statements, at NIS 254 million.

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. The parties had not reached an agreement, and accordingly, ICC submitted a summing-up brief in the case. 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 (hereinafter – "the additional assessments"). The issues raised in the said assessments are in principle similar to those contained in the assessments issued in respect of prior tax periods.

To the extent that the position of ICC would not be admitted by the Court, ICC may be liable regarding the issues raised in the assessment, also in respect of the additional assessments and in respect of later periods than that of the assessment.

K. 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.

L. 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.

N. 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.

O. 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 July 2020, 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 2020, 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, 2023		Average balance for 2023		Highest balance for 2023	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	**15**	**101**	**18**	**99**	**20**	**120**
Cash deposited as collateral	**14**	**52**	**17**	**51**	**19**	**62**

	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

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 deposited with the Euroclear, 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	
	2023	2022	2023	2022	2023	2022
Securities	**-**	84	**-**	113	**-**	160
Cash deposited as collateral	**300**	78	**263**	62	**300**	78

D. As collateral for credit from Bank of Israel:

(1) The Bank and a consolidated subsidiary, have pledged under a fixed first degree pledge unlimited in amount, all assets and rights deposited and/or registered in favor of and/or which shall be deposited and/or registered 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 registered in favor of and/or which shall be deposited and/or registered in favor of the securities account held at the Euroclear Clearing House are also pledged under a floating pledge.

In order to secure credit from Bank of Israel, the Bank pledged on February 14, 2023, in favor of Bank of Israel under a fixed first degree pledge and an assignment by way of a pledge, unlimited in amount, all of its contractual and proprietary rights, of any kind or class, in a part of the residential loan portfolio granted to its customers, including all collateral provided by these customers as security for the said residential loans. This pledge allows the Bank to reduce the balance of other collateral provided by it to Bank of Israel from time to time, to secure the said credit.

Set out below are data on the bonds that were pledged to the Bank of Israel (in NIS millions):

	December 31		Average balance		Highest balance	
	2023	2022	2023	2022	2023	2022
Securities	**947**	4,357	**2,358**	4,354	**4,357**	4,357
Housing loans	**3,233**	-	**2,891**	-	**3,344**	-

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, due to the Bank or which will be due to the Bank, 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 enters from time to time into engagements with counterparties, mostly Israeli and foreign banks as well as with customers comprising CSA (Credit Support Annex) annexes to ISDA agreements, within the framework of which transfers are being made that are intended to minimize the mutual credit risks arising between the parties in derivatives trading. In accordance with the CSA documents, a periodic measurement is made of the value of the inventory of derivatives transactions that were conducted between the parties, and if the net exposure of one of the parties exceeds a pre-defined limit, then that party receives from the other party monetary deposits to cover a part of the exposure. Furthermore, subsequent to balance sheet date the Bank has entered into a REPO agreement with counterparty, where regarding transactions made under it, transfers have also to be made in order to limit exposure, as stated.
As of December 31, 2023, the Bank has transferred deposits in favor of counterparties and customers in a total amount of NIS 316 million (December 31, 2022 - NIS 268 million). At December 31, 2023 the Bank has received deposits from counterparties and customers in the amount of NIS 467 million (December 31, 2022 - NIS 347 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 margin, that as of December 31, 2023 amounted to NIS 66 million (December 31, 2022 - NIS 85 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, 2023, the value of Nostro securities deposited by the Bank as collateral with all the foreign brokers amounted in total to NIS 91 million (December 31, 2022 - NIS 88 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 922 million (December 31, 2022 - NIS 1,413 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,	
	2023	**2022**
Securities held to maturity	**1,017**	1,583
Bonds available for sale	**137**	3,089
Total	**1,154**	4,672

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,	
	2023	**2022**
Securities received in securities lending transactions in return for cash	**57**	12
Securities received under non-collateralized securities lending transaction	**-**	127
Total	**57**	139

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, 2023			December 31, 2022		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts						
Forward and Futures Contracts	**250**	**2,986**	**3,236**	780	3,135	3,915
Options written	**-**	**501**	**501**	-	258	258
Options purchased	**-**	**501**	**501**	-	258	258
SWAPS(1)	**2,675**	**10,730**	**13,405**	3,536	13,774	17,310
Total(2)	**2,925**	**14,718**	**17,643**	4,316	17,425	21,741
Of which: Hedging derivatives(3)	**2,667**	**-**	**2,667**	3,522	-	3,522
Foreign currency contracts						
Forward and Futures Contracts(4)	**22,541**	**48,839**	**71,380**	18,364	34,259	52,623
Options written	**-**	**6,634**	**6,634**	-	6,985	6,985
Options purchased	**-**	**6,381**	**6,381**	-	7,250	7,250
SWAPS	**24**	**-**	**24**	40	-	40
Total	**22,565**	**61,854**	**84,419**	18,404	48,494	66,898
Contracts on shares						
Forward and Futures Contracts	**-**	**30,241**	**30,241**	84	30,803	30,887
Options written	**-**	**15,963**	**15,963**	-	12,127	12,127
Options purchased(5)	**1**	**15,963**	**15,964**	1	12,127	12,128
Total	**1**	**62,167**	**62,168**	85	55,057	55,142
Commodities and other contracts						
Forward and Futures Contracts	**-**	**109**	**109**	-	132	132
Options written	**-**	**24**	**24**	-	-	-
Options purchased	**-**	**24**	**24**	-	-	-
Total	**-**	**157**	**157**	-	132	132
Total face value	**25,491**	**138,896**	**164,387**	22,805	121,108	143,913

(1) Of which: SWAPS the Bank is paying fixed interest in an amount of NIS 8,268 million (31.12.22 - NIS 10,764 million).
(2) Of which: NIS-CPI swap contracts in an amount of NIS 653 million (31.12.22 - NIS 782 million).
(3) The Bank performs protection transactions by IRS derivatives in order to hedge the accounting fair value of bonds. These trans actions 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 1,529 million (31.12.22 - NIS 1,741 million).
(5) Of which: Traded on the Stock Exchange in an amount of NIS 15,963 million (31.12.22 - NIS 12,127 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, 2023					
	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	**123**	**238**	**361**	**19**	**223**	**242**
Of which: Hedging derivatives	**123**	**-**	**123**	**2**	**-**	**2**
Foreign currency contracts	**51**	**1,051**	**1,102**	**118**	**1,237**	**1,355**
Contracts on shares	**1**	**2,185**	**2,186**	**-**	**2,185**	**2,185**
Commodities and other contracts	**-**	**2**	**2**	**-**	**2**	**2**
Total assets/liabilities in respect of derivatives gross	**175**	**3,476**	**3,651**	**137**	**3,647**	**3,784**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**175**	**3,476**	**3,651**	**137**	**3,647**	**3,784**
Of which: not subject to net settlement arrangement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**

	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	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	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	-	-	-	-	-	-

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, 2023	For the year ended December 31, 2022
	Interest income	Interest income (expenses)
1. Effect of accounting of fair value Hedge on profit (loss)		
Profit from fair value Hedge		
Interest contracts		
- Hedged items	**75**	(299)
- Hedging derivatives	**19**	293

	December 31, 2023		December 31, 2022	
		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	**2,608**	**(115)**	3,494	(223)

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

	For the year ended December 31, 2023	For the year ended December 31, 2022
	Profit recognized in income from activity in derivative instruments(1)	Profit recognized in income 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	**124**	127
- Foreign currency contracts	**329**	1,481
- Share contracts	**6**	8

(1) Included in the item non-interest financing income.

C. Credit risk in respect of derivatives instruments, according to transaction counterparty on a consolidated basis

	December 31, 2023						
	Exchanges	**Banks**	**Dealers/ brokers**	**Government and central banks**	**Institutional entities**	**Others**	**Total**
Balance sheet balance of assets in respect of derivative instruments	**1,459**	**984**	**334**	**22**	**322**	**530**	**3,651**
Gross amounts not offset in the balance sheet:							
Credit risk mitigation in respect of financial instruments	**-**	**(443)**	**(92)**	**-**	**(48)**	**(165)**	**(748)**
Credit risk mitigation in respect of cash collateral received	**-**	**(82)**	**(112)**	**(22)**	**(234)**	**(1)**	**(451)**
Net amount of assets in respect of derivative instruments- reflecting proforma, if the entity performed setoff of assets and liabilities	**1,459**	**459**	**130**	**-**	**40**	**364**	**2,452**
Adjustment of net balance sheet balance to balance sheet credit risk	**(1,459)**	**(443)**	**(126)**	**-**	**(7)**	**-**	**(2,035)**
Balance sheet credit risk in respect of derivatives instruments	**-**	**16**	**4**	**-**	**33**	**364**	**417**
Net off balance sheet credit risk in respect of derivative instruments(1)	**2**	**359**	**60**	**12**	**1,537**	**613**	**2,583**
Total credit risk in respect of derivative instruments	**2**	**375**	**64**	**12**	**1,570**	**977**	**3,000**
Balance sheet balance of liabilities in respect of derivative instruments	**86**	**694**	**240**	**-**	**1,035**	**1,729**	**3,784**
Gross amounts not offset in the balance sheet:							
Financial instruments	**-**	**(443)**	**(92)**	**-**	**(48)**	**(165)**	**(748)**
Cash collateral which was attached by a lien	**-**	**(204)**	**(31)**	**-**	**(431)**	**-**	**(666)**
Net amount of liabilities in respect of derivative instruments	**86**	**47**	**117**	**-**	**556**	**1,564**	**2,370**

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

	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(1)	-	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

(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, 2023				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	**203**	**200**	**250**	**-**	**203**
- Other	**2,636**	**4,439**	**7,168**	**2,747**	**16,990**
Foreign currency contracts	**62,364**	**21,600**	**455**	**-**	**84,419**
Contracts of shares	**29,672**	**32,253**	**243**	**-**	**62,168**
Commodities and other contracts	**131**	**26**	**-**	**-**	**157**
Total	**95,006**	**58,518**	**8,116**	**2,747**	**164,387**

	December 31, 2022				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Total	107,856	23,824	8,828	3,405	143,913

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS

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)

OPERATIONAL SUPERVISION SEGMENT INFORMATION

Consolidated	For the year ended December 31, 2023							
	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	3,303	2	1,336	508	1,539	25	3,137	9,850
Interest expense from external	1,366	368	632	202	638	1,541	137	4,884
Net interest income								
- From external	1,937	(366)	704	306	901	(1,516)	3,000	4,966
- Inter - segment	797	494	444	18	(228)	1,724	(3,249)	-
Total net interest income (expenses)	2,734	128	1,148	324	673	208	(249)	4,966
Non-interest income	604	95	366	74	171	209	133	1,652
Total income (expenses)	3,338	223	1,514	398	844	417	(116)	6,618
Expenses from credit losses	187	1	189	57	68	-	-	502
Operating and other expenses	1,492	91	682	127	232	208	45	2,877
Operating profit (loss) before taxes	1,659	131	643	214	544	209	(161)	3,239
Provision for taxes (tax savings) on operating profit (loss)	559	44	216	72	183	70	(54)	1,090
Operating profit (loss) after taxes	1,100	87	427	142	361	139	(107)	2,149
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	113	113
Net profit:								
Before attribution to non-controlling interests	1,100	87	427	142	361	139	6	2,262
Attributed to non-controlling interests	(85)	(2)	(8)	(2)	(2)	-	9	(90)
Net profit attributed to shareholders of the Bank	1,015	85	419	140	359	139	15	2,172
Average balance of assets(1)	57,310	83	19,343	7,588	32,256	1,167	87,656	205,403
of which: Investee Company(1)	-	-	-	-	-	-	746	746
of which: Average balance of credit to the public(1)	(4)57,310	83	19,343	7,588	32,256	1,167	-	117,747
Balance of credit to the public at the end of the reported period	57,631	98	18,093	7,442	35,245	731	-	119,240
Balance of non-accruing debts and debts arrears over 90 days	313	-	203	97	107	-	-	720
Balance of other problematic debts	225	-	245	307	271	-	-	1,048
Balance of provision for credit losses at the end of the reported period	610	-	515	164	328	1	2	1,620
Net accounting write-offs at the end of the reported period	31	-	4	1	(5)	-	-	31
Average balance of liabilities(1)	69,879	10,862	26,423	6,608	16,697	46,988	16,174	193,631
of which: Average balance of deposits from the public(1)	69,253	10,852	26,038	6,411	16,140	46,945	-	175,639
Balance of deposits from the public	72,207	11,733	26,560	7,818	20,831	51,976	-	191,125
Average balance of risk assets(1)(2)	40,167	418	18,760	8,820	29,773	1,392	7,601	106,931
Balance of risk assets(2)	39,907	415	17,616	8,487	31,872	1,322	8,680	108,299
Average balance of assets under management(1)(3)	39,786	28,185	23,527	4,609	12,674	323,838	-	432,619
Segmentation of net interest income (expenses):								
- Earnings from credit - granting activity	1,088	1	546	185	433	10	-	2,263
- Earnings from deposits - taking activity	1,518	125	535	108	130	192	-	2,608
- Other	128	2	67	31	110	6	(249)	95
Total net interest income (expenses)	2,734	128	1,148	324	673	208	(249)	4,966

(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 2,011 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, 2022							
	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	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 at the end of the reported period	(4)59,045	97	20,019	8,192	27,784	2,019	-	117,156
Balance of non-accruing debts and debts arrears over 90 days	254	-	242	35	34	-	-	565
Balance of other problematic debts	212	-	256	133	177	1	-	779
Balance of provision for credit losses at the end of the reported period	478	-	338	112	265	2	2	1,197
Net accounting write-offs at the end of the reported period	2	-	(1)	39	(11)	-	-	29
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	6,350	97,961
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 at the end of the reported period	(4)54,882	95	21,044	6,101	18,571	1,547	-	102,240
Balance of non-accruing debts and debts arrears over 90 days	292	-	206	70	70	-	-	638
Balance of other problematic debts	252	-	403	195	224	3	-	1,077
Balance of provision for credit losses at the end of the reported period	474	-	271	145	184	2	-	1,076
Net accounting write-offs at the end of the reported period	(7)	-	(20)	14	5	-	-	(8)
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

(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

Consolidated	For the year ended December 31, 2023							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	1,723	25	1,555	3,303	-	2	2	3,305
Interest expenses for externals	-	-	1,366	1,366	-	368	368	1,734
Net interest income								
- From externals	1,723	25	189	1,937	-	(366)	(366)	1,571
- Inter-segmental	(1,205)	(12)	2,014	797	-	494	494	1,291
Total net interest income	518	13	2,203	2,734	-	128	128	2,862
Non-interest income	12	101	491	604	2	93	95	699
Total income	530	114	2,694	3,338	2	221	223	3,561
Expenses from credit losses	40	-	147	187	-	1	1	188
Operating and other expenses	154	47	1,291	1,492	-	91	91	1,583
Profit before taxes	336	67	1,256	1,659	2	129	131	1,790
Provision for taxes on profit	113	23	423	559	-	44	44	603
Net profit:								
Before attribution to non-controlling interests	223	44	833	1,100	2	85	87	1,187
Attributed to non-controlling interests	-	(3)	(82)	(85)	-	(2)	(2)	(87)
Net profit attributed to shareholders of the Bank	223	41	751	1,015	2	83	85	1,100
Average balance of assets(1)	35,450	3,146	18,714	57,310	37	46	83	57,393
Of which: average balance of credit to the public (1)	35,450	3,146	18,714	57,310	37	46	83	57,393
Balance of credit to the public at the end of the reported period	(4)35,450	3,853	18,328	57,631	50	48	98	57,729
Balance of non-accruing debts	205	-	91	296	-	-	-	296
Balance of debts in arrears of more than 90 days	-	-	17	17	-	-	-	17
Average balance of liabilities(1)	465	81	69,333	69,879	1	10,861	10,862	80,741
Of which: average balance of deposit from the public (1)	-	-	69,253	69,253	-	10,852	10,852	80,105
Balance of deposits from the public at the end of the reported period	-	-	72,207	72,207	-	11,733	11,733	83,940
Average balance of risk-adjusted assets(1)(2)	18,399	2,954	18,814	40,167	44	374	418	40,585
Balance of risk-adjusted assets at the end of the reported period(2)	18,390	3,518	17,999	39,907	56	359	415	40,322
Average balance of assets under management(1)(3)	-	-	39,786	39,786	-	28,185	28,185	67,971
Segmentation of net interest income:								
- Spread from credit granting activity	448	13	627	1,088	-	1	1	1,089
- Spread from deposit taking activity	-	-	1,518	1,518	-	125	125	1,643
- Other	70	-	58	128	-	2	2	130
Total net interest income	518	13	2,203	2,734	-	128	128	2,862

(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 2,011 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, 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 impaired 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 deposits 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

(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)

SMALL AND MINUTE, MEDIUM AND LARGE BUSINESS - ACTIVITY IN ISRAEL

Consolidated	For the year ended December 31, 2023									
	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	244	1,092	1,336	70	438	508	184	1,355	1,539	3,383
Interest expenses for externals	-	632	632	-	202	202	-	638	638	1,472
Net interest income										
- From externals	244	460	704	70	236	306	184	717	901	1,911
- Inter-segmental	27	417	444	11	7	18	42	(270)	(228)	234
Total net interest income	271	877	1,148	81	243	324	226	447	673	2,145
Non-interest income	38	328	366	17	57	74	43	128	171	611
of which: income from credit cards	-	24	24	-	2	2	-	1	1	27
Total income	309	1,205	1,514	98	300	398	269	575	844	2,756
Expenses from credit losses	42	147	189	18	39	57	36	32	68	314
Operating and other expenses	103	579	682	23	104	127	51	181	232	1,041
Profit before taxes	164	479	643	57	157	214	182	362	544	1,401
Provision for taxes on profit	55	161	216	19	53	72	61	122	183	471
Net profit:										
Before attribution to non-controlling interests	109	318	427	38	104	142	121	240	361	930
Attributed to non-controlling interests	(1)	(7)	(8)	(1)	(1)	(2)	-	(2)	(2)	(12)
Net profit attributed to shareholders of the Bank	108	311	419	37	103	140	121	238	359	918
Average balance of assets(1)	6,484	12,859	19,343	2,077	5,511	7,588	8,018	24,238	32,256	59,187
Of which: average balance of credit to the public (1)	6,484	12,859	19,343	2,077	5,511	7,588	8,018	24,238	32,256	59,187
Balance of credit to the public at the end of the reported period	5,946	12,147	18,093	2,614	4,828	7,442	8,878	26,367	35,245	60,780
Balance of non-accruing debts	26	164	190	11	86	97	11	96	107	394
Balance of debts in arrears of more than 90 days	-	13	13	-	-	-	-	-	-	13
Average balance of liabilities(1)	3,961	22,462	26,423	1,154	5,454	6,608	1,767	14,930	16,697	49,728
Of which: average balance of deposits from the public (1)	3,790	22,248	26,038	1,085	5,326	6,411	1,492	14,648	16,140	48,589
Balance of deposits from the public at the end of the reported period	3,600	22,960	26,560	1,092	6,726	7,818	2,150	18,681	20,831	55,209
Average balance of risk-adjusted assets(1)(2)	7,665	11,095	18,760	3,027	5,793	8,820	11,358	18,415	29,773	57,353
Balance of risk-adjusted assets at the end of the reported period(2)	6,905	10,711	17,616	3,394	5,093	8,487	12,001	19,871	31,872	57,975
Average balance of assets under management(1)(3)	2,249	21,278	23,527	325	4,284	4,609	1,366	11,308	12,674	40,810
Segmentation of net interest income:										
- Spread from credit granting activity	177	369	546	56	129	185	169	264	433	1,164
- Spread from deposit taking activity	67	468	535	14	94	108	15	115	130	773
- Other	27	40	67	11	20	31	42	68	110	208
Total net interest income	271	877	1,148	81	243	324	226	447	673	2,145

(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, 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	7,267	12,752	20,019	2,134	6,058	8,192	7,312	20,472	27,784	55,995
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 impaired 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

(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, 2023				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	18	3,119	-	-	3,137
Interest expenses for externals	2	135	-	-	137
Net interest income					
- From externals	16	2,984	-	-	3,000
- Inter-segmental	-	(3,249)	-	-	(3,249)
Total net interest income (expenses)	16	(265)	-	-	(249)
Non-interest income (expenses)	72	(5)	60	6	133
Total income (expenses)	88	(270)	60	6	(116)
Operating and other expenses	-	45	-	-	45
Profit (loss) before taxes	88	(315)	60	6	(161)
Provision for taxes (tax savings) on profit (loss)	30	(106)	20	2	(54)
Profit (loss) after taxes	58	(209)	40	4	(107)
Bank's share in operating profit of investee company after tax effect	-	-	113	-	113
Net profit (loss):					
Before attribution to non-controlling interests	58	(209)	153	4	6
Attributed to non-controlling interests	-	9	-	-	9
Net profit (loss) attributed to shareholders of the Bank	58	(200)	153	4	15
Average balance of assets(1)	397	86,055	1,204	-	87,656
Of which: Investee company(1)	-	-	746	-	746
Average balance of liabilities(1)	42	16,133	-	-	16,174
Average balance of risk assets(1)(2)	930	4,470	2,201	-	7,601
Balance of risk assets(2)	886	5,404	2,390	-	8,680
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net(3)	27	(15)			
CPI differences, net(3)	-	225			
Interest rate exposures, net(3)	69	(379)			
Exposures to shares, net(3)	(2)	-			
Total net interest income (expenses) and non-interest income, by accrual basis	94	(169)			
Profits or losses from sale or impairment that is not temporary of bonds	-	(101)			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	-			
Other non-interest expenses	(6)	-			
Total net interest income (expenses) and non interest financing income	88	(270)			

(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, 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
Operating 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	-	-	15,537
Average balance of risk assets(1)(2)	702	3,377	2,271	-	6,350
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 income	(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)

F. GEOGRAPHICAL REGION INFORMATION[1]

(NIS million)

Consolidated	Income[2]			Net profit			Total assets	
	Year ended December 31			Year ended December 31			at December 31	
	2023	2022	2021	**2023**	2022	2021	**2023**	2022
Israel	**6,618**	5,414	4,550	**2,172**	1,667	1,405	**221,593**	195,955
Consolidated total	**6,618**	5,414	4,550	**2,172**	1,667	1,405	**221,593**	195,955

(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, 2023						
	Banking Division				Corporate Division		
	Housing loans	Households	Private banking	Other	Corporate customers	Commercial customers	Other
Net interest income (expenses)	**523**	**1,277**	**808**	**875**	**899**	**433**	**233**
Non-interest income	**12**	**219**	**456**	**218**	**302**	**84**	**46**
Total income (expenses)	**535**	**1,496**	**1,264**	**1,093**	**1,201**	**517**	**279**
Expenses from credit losses	**41**	**111**	**48**	**142**	**91**	**107**	**4**
Operating and other expenses	**161**	**755**	**569**	**472**	**371**	**182**	**45**
Operating profit (loss) before taxes	**333**	**630**	**647**	**479**	**739**	**228**	**230**
Provision for taxes (tax savings) on operating profit (loss)	**112**	**211**	**217**	**160**	**248**	**76**	**77**
Operating profit (loss) after taxes	**221**	**419**	**430**	**319**	**491**	**152**	**153**
Bank's share in operating profit of investee company	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss):							
Before attribution to non-controlling interests	**221**	**419**	**430**	**319**	**491**	**152**	**153**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Attributed to shareholders of the Bank	**221**	**419**	**430**	**319**	**491**	**152**	**153**
Average balance of assets(1)	**35,197**	**14,890**	**4,282**	**10,197**	**39,969**	**10,816**	**1,010**
Balance of credit to the public at the end of the reported period	**35,167**	**14,908**	**4,372**	**10,931**	**41,544**	**10,437**	**863**
Balance of deposits from the public at the end of the reported period	**-**	**34,106**	**45,259**	**22,969**	**34,737**	**8,951**	**44,877**

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

(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
			Total	Of which: activity in capital market products	
2,436	**(254)**	**439**	**(2,703)**	**(2,437)**	**4,966**
957	**151**	**75**	**(868)**	**(761)**	**1,652**
3,393	**(103)**	**514**	**(3,571)**	**(3,198)**	**6,618**
10	**-**	**18**	**(70)**	**(10)**	**502**
1,006	**43**	**213**	**(940)**	**(801)**	**2,877**
2,377	**(146)**	**283**	**(2,561)**	**(2,387)**	**3,239**
796	**(49)**	**100**	**(858)**	**(800)**	**1,090**
1,581	**(97)**	**183**	**(1,703)**	**(1,587)**	**2,149**
-	**113**	**-**	**-**	**-**	**113**
1,581	**16**	**183**	**(1,703)**	**(1,587)**	**2,262**
-	**-**	**(90)**	**-**	**-**	**(90)**
1,581	**16**	**93**	**(1,703)**	**(1,587)**	**2,172**
12,603	**85,522**	**9,228**	**(18,311)**	**(12,603)**	**205,403**
13,708	**-**	**6,121**	**(18,811)**	**(13,708)**	**119,240**
184,104	**-**	**9,633**	**(193,511)**	**(184,104)**	**191,125**

Customer assets division	Financial Management	Subsidiaries	Adjustments		Total
			Total	Of which: activity in capital market products	
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

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

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
	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 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, 2023					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Provision for credit losses at beginning of the year(1)	**817**	**151**	**344**	**1,312**	**2**	**1,314**
Expenses from credit losses	**314**	**40**	**148**	**502**	**-**	**502**
- Accounting write-offs	**(85)**	**(9)**	**(122)**	**(216)**	**-**	**(216)**
- Collection of debts written off in accounting in previous years	**85**	**7**	**93**	**185**	**-**	**185**
Net accounting write-offs	**-**	**(2)**	**(29)**	**(31)**	**-**	**(31)**
Provision for credit losses at end of year(2)	**1,131**	**189**	**463**	**1,783**	**2**	**1,785**
Of which: (1) In respect of off-balance sheet credit instruments	**100**	**6**	**11**	**117**	**-**	**117**
(2) In respect of off-balance sheet credit instruments	**123**	**8**	**34**	**165**	**-**	**165**

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 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

* 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.

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						December 31, 2023
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Recorded balance of debts						
Examined on an individual basis	**55,349**	**-**	**288**	**55,637**	**29,049**	**84,686**
Examined on a collective basis	**6,302**	**35,450**	**21,851**	**63,603**	**-**	**63,603**
Total debts	**61,651**	**35,450**	**22,139**	**119,240**	**29,049**	**148,289**
Provision for credit losses in respect of debts						
Examined on an individual basis	**900**	**-**	**7**	**907**	**2**	**909**
Examined on a collective basis	**108**	**181**	**422**	**711**	**-**	**711**
Total provision for credit losses	**1,008**	**181**	**429**	**1,618**	**2**	**1,620**

Consolidated						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	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

(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, 2023					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Provision for credit losses at beginning of year[1]	**798**	**151**	**278**	**1,227**	**2**	**1,229**
Expenses from credit losses	**311**	**40**	**133**	**484**	**-**	**484**
- Accounting write-offs	**(84)**	**(9)**	**(107)**	**(200)**	**-**	**(200)**
- Collection of debts written off in accounting in previous years	**83**	**7**	**80**	**170**	**-**	**170**
Net accounting write-offs	**(1)**	**(2)**	**(27)**	**(30)**	**-**	**(30)**
Provision for credit losses at end of year[2]	**1,108**	**189**	**384**	**1,681**	**2**	**1,683**
Of which: (1) In respect of off-balance sheet credit instruments	**97**	**6**	**9**	**112**	**-**	**112**
(2) In respect of off-balance sheet credit instruments	**121**	**8**	**32**	**161**	**-**	**161**

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

* 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.

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						December 31, 2023
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks, Governments and Bonds	Total
Recorded balance of debts						
Examined on an individual basis	**54,307**	**-**	**288**	**54,595**	**27,726**	**82,321**
Examined on a collective basis	**6,238**	**35,450**	**16,835**	**58,523**	**-**	**58,523**
Total debts	**60,545**	**35,450**	**17,123**	**113,118**	**27,726**	**140,844**
Provision for credit losses in respect of debts						
Examined on an individual basis	**879**	**-**	**7**	**886**	**2**	**888**
Examined on a collective basis	**108**	**181**	**345**	**634**	**-**	**634**
Total provision for credit losses	**987**	**181**	**352**	**1,520**	**2**	**1,522**

The Bank						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

(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, 2023					
		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	**10,381**	**49**	**19**	**10,449**	**-**	**2**
Construction and real estate - real estate activities	**7,040**	**43**	**29**	**7,112**	**-**	**3**
Financial services	**16,408**	**1**	**2**	**16,411**	**1**	**4**
Commercial - other	**26,163**	**719**	**344**	**27,226**	**12**	**43**
Total commercial	**59,992**	**812**	**394**	**61,198**	**13**	**52**
Private individuals - housing loans	**35,177**	**68**	**205**	**35,450**	**-**	**172**
Private individuals - others	**21,874**	**174**	**91**	**22,139**	**17**	**47**
Total activity in Israel	**117,043**	**1,054**	**690**	**118,787**	**30**	**271**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**17**	**-**	**-**	**17**	**-**	**-**
Other commercial	**412**	**24**	**-**	**436**	**-**	**5**
Total commercial	**429**	**24**	**-**	**453**	**-**	**5**
Private individuals	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**429**	**24**	**-**	**453**	**-**	**5**
Total credit to the public	**117,472**	**1,078**	**690**	**119,240**	**30**	**276**

(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 101 million (31.12.22 - NIS 81 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, 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

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, 2023							
	Stated balance of debt regarding fixed-term credit to the public*							
	2023	2022	2021	2020	2019	Prior years	Stated debt Balance of renewable loans	Total
Borrower activity in Israel								
Public - commercial								
Construction and real estate	6,774	4,730	1,306	945	422	1,167	2,217	17,561
Credit having a credit granting rating	6,667	4,552	1,253	929	395	1,145	2,105	17,046
Credit not having credit granting rating and is not problematic	94	170	33	8	13	11	46	375
Accruing problematic credit	12	5	7	6	1	3	58	92
Non-accruing credit	3	3	13	2	13	8	8	48
Other commercial	7,405	4,633	2,405	1,843	1,165	2,087	24,099	43,637
Credit having a credit granting rating	7,147	4,464	2,204	1,694	1,007	1,922	23,332	41,770
Credit not having credit granting rating and is not problematic	88	105	103	70	84	78	273	801
Accruing problematic credit	138	27	64	45	32	42	372	720
Non-accruing credit	32	37	34	34	42	45	122	346
Private individuals - residential loans	2,560	5,630	6,902	4,838	3,141	12,379	-	35,450
LTV of up to 60%	1,635	3,510	4,447	3,195	2,218	9,440	-	24,445
LTV of over 60% and up to 75%	913	2,093	2,397	1,595	890	2,566	-	10,454
LTV of over 75%	12	27	58	48	33	373	-	551
Credit not in default, having a credit granting rating	2,544	5,595	6,838	4,778	3,104	12,090	-	34,949
Credit not in default, not having a credit granting rating	11	6	15	16	8	74	-	130
In arrears for 30 to 89 days	5	21	29	24	16	83	-	178
In arrears for over 90 days	-	8	20	20	13	132	-	193
Non-accruing credit	-	9	20	24	13	139	-	205
Private individuals - others	3,945	3,140	2,327	1,687	1,242	4,755	5,043	22,139
Credit not in default, having a credit granting rating	3,821	3,053	2,240	1,620	1,190	4,500	4,864	21,288
Credit not in default, not having a credit granting rating	115	76	78	62	47	238	163	779
In arrears for 30 to 89 days	8	8	6	4	4	11	10	51
In arrears for over 90 days	1	3	3	1	1	6	6	21
Non-accruing credit	10	9	7	6	4	18	37	91
Total Credit to the public - activity in Israel	20,684	18,133	12,940	9,313	5,970	20,388	31,359	118,787
Total Credit to the public - activity abroad	238	1	-	1	-	-	213	453
Performing credit	214	1	-	1	-	-	213	429
Accruing problematic credit	24	-	-	-	-	-	-	24
Non-accruing credit	-	-	-	-	-	-	-	-
Total Credit to the public	20,922	18,134	12,940	9,314	5,970	20,388	31,572	119,240

* 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)

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	8,619	2,607	1,264	577	425	1,118	2,225	16,835
Credit having a credit granting rating	8,483	2,533	1,238	558	416	1,084	2,121	16,433
Credit not having credit granting rating and is not problematic	124	59	14	7	4	14	41	263
Accruing problematic credit	6	7	2	4	3	13	4	39
Non-accruing credit	6	8	10	8	2	7	59	100
Other commercial	9,670	3,756	3,015	1,738	884	2,087	19,719	40,869
Credit having a credit granting rating	9,341	3,531	2,715	1,605	816	1,977	18,998	38,983
Credit not having credit granting rating and is not problematic	281	107	159	82	32	46	440	1,147
Accruing problematic credit	36	90	102	38	20	36	214	536
Non-accruing credit	12	28	39	13	16	28	67	203
Private individuals - residential loans	5,554	7,359	5,189	3,361	2,649	11,362	-	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%	2,039	2,583	1,729	984	700	2,406	-	10,441
LTV of over 75%	24	57	56	35	31	554	-	757
Credit not in default, having a credit granting rating	5,537	7,311	5,126	3,331	2,605	11,072	-	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	5,335	3,337	2,358	1,709	1,830	4,156	4,808	23,533
Credit not in default, having a credit granting rating	5,234	3,222	2,268	1,639	1,728	3,903	4,659	22,653
Credit not in default, not having a credit granting rating	96	105	85	65	95	241	128	815
In arrears for 30 to 89 days	4	8	4	4	5	8	16	49
In arrears for over 90 days	1	2	1	1	2	4	5	16
Non-accruing credit	6	9	6	6	8	17	44	96
Total Credit to the public - activity in Israel	29,178	17,059	11,826	7,385	5,788	18,723	26,752	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	29,453	17,059	11,827	7,386	5,797	18,723	26,911	117,156

* Restated after data optimization.

** 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, 2023
	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	**28**	**9**	**20**	**48**	**1,473**	**-**
Commercial - other	**316**	**112**	**30**	**346**	**2,140**	**-**
Total commercial	**344**	**121**	**50**	**394**	**3,613**	**-**
Private individuals - residential loans	**203**	**12**	**2**	**205**	**248**	**-**
Private individuals - others	**86**	**28**	**5**	**91**	**324**	**-**
Total Credit to the public - activity in Israel	**633**	**161**	**57**	**690**	**4,180**	**-**
Borrower activity abroad						
Total Credit to the public - activity abroad	**-**	**-**	**-**	**-**	**20**	**-**
Total *	**633**	**161**	**57**	**690**	**4,200**	**-**
(*) Of which:						
Measured by present value of cash flows	**344**	**121**	**34**	**378**		
Measured individually according to present value of collateral	**-**	**-**	**12**	**12**		
Measured on a collective basis	**289**	**40**	**11**	**300**		

						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		

(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 56 million (31.12.22 - NIS 39 million) was recorded.
Additional information: the total stated average debt balance of non-accruing debts was NIS 582 million (31.12.22 - NIS 538 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, 2023				
	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	**15**	**-**	**-**	**1**	**16**
Commercial - other	**55**	**-**	**-**	**11**	**66**
Total commercial	**70**	**-**	**-**	**12**	**82**
Private individuals - residential loans	**7**	**-**	**-**	**4**	**11**
Private individuals - others	**65**	**-**	**-**	**29**	**94**
Total Credit to the public - activity in Israel	**142**	**-**	**-**	**45**	**187**
Borrower activity abroad					
Total Credit to the public - activity abroad	**-**	**-**	**-**	**-**	**-**
Total	**142**	**-**	**-**	**45**	**187**

	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	-	-	4	18
Commercial - other	52	-	-	15	67
Total commercial	66	-	-	19	85
Private individuals - residential loans	13	-	-	1	14
Private individuals - others	63	-	-	26	89
Total Credit to the public - activity in Israel	142	-	-	46	188
Borrower activity abroad					
Total Credit to the public - activity abroad	-	-	-	-	-
Total	142	-	-	46	188

(1) Accruing interest income.

(2) As at December 31, 2023, debts of NIS 183 million, that had been restructured are classified as problematic debts (as of December 31, 2022 – NIS 165 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,								
	2023			2022			2021		
	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	**45**	**9**	**9**	28	12	12	37	5	5
Commercial - other	**224**	**41**	**41**	218	37	37	225	38	38
Total commercial	**269**	**50**	**50**	246	49	49	262	43	43
Private individuals - housing loans	**4**	**2**	**2**	4	3	3	-	-	-
Private individuals - others	**1,200**	**62**	**58**	1,231	53	50	1,025	46	44
Total credit to the public - activity in Israel	**1,473**	**114**	**110**	1,481	105	102	1,287	89	87

Consolidated	Restructuring made and failed [1]					
	For the year ended December 31,					
	2023		2022		2021	
	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	**25**	**1**	18	1	21	2
Commercial - other	**106**	**11**	111	14	144	6
Total commercial	**131**	**12**	129	15	165	8
Private individuals - housing loans	**3**	**-**	4	1	-	-
Private individuals - others	**510**	**11**	522	13	517	10
Total credit to the public - activity in Israel	**644**	**23**	655	29	682	18

(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, 2023
	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	**304**	**11**	**34**	**31**	**10**	**4**	**-**	**394**
Residential loans	**12**	**95**	**57**	**31**	**5**	**1**	**4**	**205**
Private individuals - others	**86**	**2**	**2**	**1**	**-**	**-**	**-**	**91**
Total	**402**	**108**	**93**	**63**	**15**	**5**	**4**	**690**

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	145
Private individuals - others	90	2	2	2	-	-	-	96
Total	315	83	61	62	12	9	2	544

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, 2023			
	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%	**23,989**	**263**	**14,028**	**1,331**
- Over 60%	**11,005**	**89**	**6,627**	**1,099**
Secondary lien or no lien	**456**	**18**	**407**	**-**
Total	**35,450**	**370**	**21,062**	**2,430**

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

* 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, 2023				For the year ended December 31, 2022			
	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	**6,727**	**-**	**23**	**2,013**	6,285	-	2	1,798
Total	**6,727**	**-**	**23**	**2,013**	6,285	-	2	1,798

(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.

5. Syndication and participation in the syndication of loans

Consolidated	December 31, 2023					
	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	**71**	**-**	**71**	**-**	**3,995**	**1,591**
Total	**71**	**-**	**71**	**-**	**3,995**	**1,591**

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

(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.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

C. CLASSIFICATION OF CREDIT(2) AND CREDIT RISK OF OFF-BALANCE SHEET(3) ITEMS BY SIZE OF BORROWERS

Consolidated		December 31, 2023			December 31, 2022		
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	**225,589**	**318**	**765**	214,304	331	695
From 10	to 20	**82,747**	**410**	**916**	82,064	442	872
From 20	to 40	**108,897**	**1,151**	**2,323**	104,990	1,210	2,024
From 40	to 80	**112,770**	**2,860**	**4,070**	109,252	3,006	3,480
From 80	to 150	**82,730**	**5,479**	**4,141**	83,834	5,953	3,465
From 150	to 300	**53,814**	**8,528**	**3,282**	55,059	8,890	2,643
From 300	to 600	**30,255**	**11,130**	**2,321**	30,809	11,433	1,843
From 600	to 1,200	**26,110**	**19,745**	**2,805**	26,859	20,448	2,349
From 1,200	to 2,000	**8,051**	**10,208**	**1,780**	7,962	10,248	1,552
From 2,000	to 4,000	**2,661**	**5,425**	**1,679**	2,653	5,629	1,427
From 4,000	to 8,000	**983**	**3,772**	**1,815**	996	4,145	1,474
From 8,000	to 20,000	**603**	**5,599**	**2,152**	727	6,517	2,642
From 20,000	to 40,000	**279**	**5,960**	**1,968**	299	6,348	2,089
From 40,000	to 200,000	**283**	**18,093**	**6,154**	294	17,612	6,924
From 200,000	to 400,000	**45**	**9,184**	**2,894**	42	8,014	3,249
From 400,000	to 800,000	**13**	**5,575**	**2,662**	13	3,936	3,046
From 800,000	to 1,200,000	**5**	**3,684**	**851**	6	3,902	1,633
From 1,200,000	to 1,600,000	**2**	**2,550**	**315**	-	-	-
Total		**735,837**	**119,671**	**42,893**	720,163	118,064	41,407

(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 119,088 million, NIS 182 million and NIS 401 million, respectively (31.12.2022 - NIS 117,156 million, NIS 219 million and NIS 689 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			
	2023	2022	2023	2022	2023	2022	2023	2022
Transactions the balance of which represents credit risk:								
Documentary credit	**141**	572	**1**	1	**140**	571	**1**	1
Guarantees securing credit	**1,128**	1,174	**16**	10	**996**	1,007	**15**	10
Guarantees to home purchasers	**2,985**	4,325	**6**	9	**2,941**	4,265	**6**	8
Guarantees and letters of indemnity to subsidiaries to secure credit granted by them	**-**	-	**-**	-	**1**	1	**-**	-
Guarantees and other liabilities	**4,854**	5,141	**51**	46	**4,754**	5,031	**51**	44
Unutilized credit lines for derivatives instruments	**2,617**	3,303	**-**	-	**2,616**	3,302	**-**	-
Unutilized revolving credit and other on-call credit facilities	**11,245**	11,672	**37**	22	**10,278**	10,759	**35**	21
Irrevocable commitments to grant credit, not yet executed	**8,307**	6,042	**31**	18	**8,289**	6,017	**31**	18
Unutilized credit lines for credit card facilities	**10,337**	9,396	**18**	9	**9,150**	8,341	**17**	8
Facilities for the lending of securities	**853**	595	**-**	-	**853**	595	**-**	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses (see Note 25(D,E)).	**329**	220	**-**	-	**329**	220	**-**	-
Commitments to issue guarantees	**2,168**	1,387	**5**	2	**2,150**	1,358	**5**	2

(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 definition 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, 2023, the total written down cost of the liabilities in respect of guaranties, as detailed in the tables below, amounts to NIS 37 million (as of December 31, 2022 - NIS 43 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, 2023					December 31, 2022				
	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	**922**	**190**	**16**	**1,128**	**7**	907	249	18	1,174	6
Guaranties to home purchasers	**1,454**	**1,433**	**98**	**2,985**	**10**	3,356	851	118	4,325	17
Other guarantees and obligations	**3,622**	**911**	**791**	**5,324**	**20**	4,312	880	741	5,933	20
Commitments to issue guaranties	**519**	**920**	**729**	**2,168**	**-**	284	727	376	1,387	-
Total guaranties	**6,517**	**3,454**	**1,634**	**11,605**	**37**	8,859	2,707	1,253	12,819	43

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

3. Guaranty risk assessment

	Maximum amount of future potential payments							
	December 31, 2023				December 31, 2022			
	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	**1,067**	**54**	**7**	**1,128**	1,138	27	9	1,174
Guaranties to home purchasers	**2,899**	**86**	**-**	**2,985**	4,312	13	-	4,325
Other guarantees and obligations	**5,167**	**126**	**31**	**5,324**	5,632	238	63	5,933
Commitments to issue guaranties	**2,070**	**98**	**-**	**2,168**	1,151	236	-	1,387
Total guaranties	**11,203**	**364**	**38**	**11,605**	12,233	514	72	12,819

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

Consolidated							December 31, 2023
	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	66,644	-	1,607	326	289	-	68,866
Securities	10,434	1,874	12,213	1,921	-	543	26,985
Securities which were borrowed	57	-	-	-	-	-	57
Credit to the public, net(3)	95,191	15,366	4,857	1,557	63	588	117,622
Credit to the government	346	686	23	-	-	-	1,055
Investee company	-	-	-	-	-	786	786
Premises and equipment	-	-	-	-	-	877	877
Intangible assets	-	-	-	-	-	328	328
Assets in respect of derivative instruments	1,075	3	296	59	30	2,188	3,651
Other assets	976	5	13	2	-	370	1,366
Total assets	174,723	17,934	19,009	3,865	382	5,680	221,593
Liabilities							
Deposits from the public	150,675	5,614	29,147	3,678	1,423	588	191,125
Deposits from banks	3,522	-	728	2	62	-	4,314
Deposits from the Government	325	-	420	3	2	-	750
Bonds and subordinated capital notes	2	4,765	-	-	-	-	4,767
Liabilities in respect of derivative instruments	1,328	20	161	72	16	2,187	3,784
Other liabilities	4,038	79	31	5	1	53	4,207
Total liabilities	159,890	10,478	30,487	3,760	1,504	2,828	208,947
Difference	14,833	7,456	(11,478)	105	(1,122)	2,852	12,646
Non-hedging derivatives							
Derivative instruments (not including options)	(12,145)	(250)	11,447	(172)	1,120	-	-
Options in the money, net (in terms of underlying asset)	(104)	-	32	72	-	-	-
Options out of the money, net (in terms of underlying asset)	(44)	-	48	(4)	-	-	-
Total	2,540	7,206	49	1	(2)	2,852	12,646
Options in the money, net (present value of stated amount)	(149)	-	30	119	-	-	-
Options out of the money, net (present value of stated amount)	(392)	-	499	(107)	-	-	-

(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, 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 companies	-	-	-	-	-	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)	-	-

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank	December 31, 2023						
	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	**64,824**	**431**	**1,605**	**323**	**289**	**-**	**67,472**
Securities	**9,722**	**1,700**	**12,190**	**1,785**	**-**	**543**	**25,940**
Securities which were borrowed	**57**	**-**	**-**	**-**	**-**	**-**	**57**
Credit to the public, net(3)	**89,543**	**14,999**	**4,854**	**1,551**	**63**	**588**	**111,598**
Credit to the government	**346**	**-**	**23**	**-**	**-**	**-**	**369**
Investee companies	**-**	**-**	**-**	**-**	**-**	**1,642**	**1,642**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**855**	**855**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**324**	**324**
Assets in respect of derivative instruments	**1,075**	**3**	**296**	**59**	**30**	**2,188**	**3,651**
Other assets	**943**	**3**	**13**	**-**	**-**	**334**	**1,293**
Total assets	**166,510**	**17,136**	**18,981**	**3,718**	**382**	**6,474**	**213,201**
Liabilities							
Deposits from the public	**142,425**	**7,329**	**28,849**	**3,483**	**1,408**	**588**	**184,082**
Deposits from banks	**4,903**	**316**	**998**	**49**	**78**	**-**	**6,344**
Deposits from the Government	**325**	**-**	**420**	**3**	**2**	**-**	**750**
Bonds and subordinated capital notes	**2**	**2,440**	**-**	**-**	**-**	**-**	**2,442**
Liabilities in respect of derivative instruments	**1,328**	**20**	**164**	**75**	**16**	**2,187**	**3,790**
Other liabilities	**3,555**	**78**	**30**	**5**	**1**	**53**	**3,722**
Total liabilities	**152,538**	**10,183**	**30,461**	**3,615**	**1,505**	**2,828**	**201,130**
Difference	**13,972**	**6,953**	**(11,480)**	**103**	**(1,123)**	**3,646**	**12,071**
Non-hedging derivatives:							
Derivative instruments (not including options)	**(12,145)**	**(250)**	**11,447**	**(172)**	**1,120**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**(104)**	**-**	**32**	**72**	**-**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**(44)**	**-**	**48**	**(4)**	**-**	**-**	**-**
Total	**1,679**	**6,703**	**47**	**(1)**	**(3)**	**3,646**	**12,071**
Options in the money, net (present value of stated amount)	**(149)**	**-**	**30**	**119**	**-**	**-**	**-**
Options out of the money, net (present value of stated amount)	**(392)**	**-**	**499**	**(107)**	**-**	**-**	**-**

(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, 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 and goodwill	-	-	-	-	-	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)	-	-

NOTE 31 -ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1)

Consolidated	Future expected cash flows				
	December 31, 2023				
	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	**93,296**	**9,996**	**22,346**	**15,290**	**12,910**
Liabilities	**111,437**	**32,316**	**17,988**	**4,311**	**1,343**
Difference	**(18,141)**	**(22,320)**	**4,358**	**10,979**	**11,567**
Derivative instruments (except options)	**(8,994)**	**(3,671)**	**396**	**(173)**	**-**
Options (in terms of underlying assets)	**(49)**	**(26)**	**(180)**	**-**	**-**
Difference after effect of derivative instruments	**(27,184)**	**(26,017)**	**4,574**	**10,806**	**11,567**
Foreign currency					
Assets	**8,837**	**3,798**	**5,278**	**2,636**	**958**
Liabilities	**25,939**	**5,883**	**4,034**	**92**	**72**
Difference	**(17,102)**	**(2,085)**	**1,244**	**2,544**	**886**
Of which: Difference in U.S. dollar	**(14,336)**	**(2,217)**	**1,171**	**2,329**	**553**
Derivative instruments (except options)	**8,994**	**3,671**	**(396)**	**173**	**-**
Options (in terms of underlying assets)	**49**	**26**	**180**	**-**	**-**
Difference after effect of derivative instruments	**(8,059)**	**1,612**	**1,028**	**2,717**	**886**
Total					
Assets*	**102,133**	**13,794**	**27,624**	**17,926**	**13,868**
Liabilities**	**137,376**	**38,199**	**22,022**	**4,403**	**1,415**
Difference	**(35,243)**	**(24,405)**	**5,602**	**13,523**	**12,453**
* Of which: Credit to the public	**24,970**	**11,370**	**20,728**	**14,385**	**9,780**
** Of which: Deposits from the public	**132,948**	**36,528**	**18,825**	**1,475**	**847**

	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				
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

(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 242 million (31.12.22 - NIS 231 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 4,477 million (31.12.22 - NIS 4,401 million). Credit in excess of credit facility in the amount NIS 185 million, classified without maturity date (31.12.22 - NIS 190 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
8,565	**6,898**	**24,948**	**20,368**	**6,824**	**221,441**	**210**	**192,745**	**5.14**
803	**262**	**2,295**	**1,244**	**88**	**172,087**	**22**	**170,449**	**1.91**
7,762	**6,636**	**22,653**	**19,124**	**6,736**	**49,354**	**188**	**22,296**	
-	**-**	**-**	**-**	**-**	**(12,442)**	**-**	**(12,395)**	
-	**-**	**-**	**-**	**-**	**(255)**	**-**	**(148)**	
7,762	**6,636**	**22,653**	**19,124**	**6,736**	**36,657**	**188**	**9,753**	
1,272	**751**	**915**	**149**	**-**	**24,594**	**31**	**23,168**	**4.75**
64	**44**	**113**	**-**	**-**	**36,241**	**-**	**35,670**	**5.06**
1,208	**707**	**802**	**149**	**-**	**(11,647)**	**31**	**(12,502)**	
480	**650**	**476**	**-**	**-**	**(10,894)**	**25**	**(11,484)**	
-	**-**	**-**	**-**	**-**	**12,442**	**-**	**12,395**	
-	**-**	**-**	**-**	**-**	**255**	**-**	**148**	
1,208	**707**	**802**	**149**	**-**	**1,050**	**31**	**41**	
9,837	**7,649**	**25,863**	**20,517**	**6,824**	**246,035**	**241**	**215,913**	**5.13**
867	**306**	**2,408**	**1,244**	**88**	**208,328**	**22**	**206,119**	**2.08**
8,970	**7,343**	**23,455**	**19,273**	**6,736**	**37,707**	**219**	**9,794**	
7,922	**6,732**	**22,002**	**20,328**	**6,301**	**144,518**	**229**	**117,034**	**5.28**
422	**77**	**164**	**108**	**-**	**191,394**	**-**	**190,537**	**2.33**

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
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

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1) (CONT'D)

The bank	Future expected cash flows				
	December 31, 2023				
	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	**90,662**	**9,581**	**20,443**	**13,996**	**11,376**
Liabilities	**104,707**	**30,922**	**17,644**	**4,606**	**1,973**
Difference	**(14,045)**	**(21,341)**	**2,799**	**9,390**	**9,403**
Derivative instruments (except options)	**(8,994)**	**(3,671)**	**396**	**(173)**	**-**
Options (in terms of underlying assets)	**(49)**	**(26)**	**(180)**	**-**	**-**
Difference after effect of derivative instruments	**(23,088)**	**(25,038)**	**3,015**	**9,217**	**9,403**
Foreign currency					
Assets	**8,747**	**3,799**	**5,282**	**2,637**	**948**
Liabilities	**25,575**	**5,955**	**4,165**	**96**	**75**
Difference	**(16,828)**	**(2,156)**	**1,117**	**2,541**	**873**
Of which: Difference in U.S. dollar	**(14,138)**	**(2,286)**	**1,060**	**2,329**	**545**
Derivative instruments (except options)	**8,994**	**3,671**	**(396)**	**173**	**-**
Options (in terms of underlying assets)	**49**	**26**	**180**	**-**	**-**
Difference after effect of derivative instruments	**(7,785)**	**1,541**	**901**	**2,714**	**873**
Total					
Assets*	**99,409**	**13,380**	**25,725**	**16,633**	**12,324**
Liabilities**	**130,282**	**36,877**	**21,809**	**4,702**	**2,048**
Difference	**(30,873)**	**(23,497)**	**3,916**	**11,931**	**10,276**
* Of which: Credit to the public	**24,208**	**10,960**	**19,040**	**13,153**	**8,875**
** Of which: Deposits from the public	**125,903**	**35,065**	**18,254**	**3,242**	**992**

	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				
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

(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 229 million (31.12.22 - NIS 220 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 4,043 million (31.12.22 - NIS 4,002 million). Credit in excess of credit facility in the amount NIS 172 million, classified without maturity date (31.12.22 - NIS 179 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)		Contractual return rate(4)
						Without maturity date(2)(5)	Total	
							NIS million	Percent
7,832	**6,361**	**23,773**	**20,277**	**6,824**	**211,125**	**198**	**183,734**	**5.07**
825	**243**	**2,244**	**1,214**	**88**	**164,466**	**22**	**162,802**	**1.94**
7,007	**6,118**	**21,529**	**19,063**	**6,736**	**46,659**	**176**	**20,932**	
-	**-**	**-**	**-**	**-**	**(12,442)**	**-**	**(12,395)**	
-	**-**	**-**	**-**	**-**	**(255)**	**-**	**(149)**	
7,007	**6,118**	**21,529**	**19,063**	**6,736**	**33,962**	**176**	**8,388**	
1,206	**754**	**897**	**149**	**-**	**24,419**	**31**	**22,993**	**4.73**
64	**48**	**116**	**-**	**-**	**36,094**	**-**	**35,500**	**5.07**
1,142	**706**	**781**	**149**	**-**	**(11,675)**	**31**	**(12,507)**	
480	**650**	**455**	**-**	**-**	**(10,905)**	**25**	**(11,486)**	
-	**-**	**-**	**-**	**-**	**12,442**	**-**	**12,395**	
-	**-**	**-**	**-**	**-**	**255**	**-**	**149**	
1,142	**706**	**781**	**149**	**-**	**1,022**	**31**	**37**	
9,038	**7,115**	**24,670**	**20,426**	**6,824**	**235,544**	**229**	**206,727**	**5.05**
889	**291**	**2,360**	**1,214**	**88**	**200,560**	**22**	**198,302**	**2.12**
8,149	**6,824**	**22,310**	**19,212**	**6,736**	**34,984**	**207**	**8,425**	
7,242	**6,248**	**21,007**	**20,237**	**6,301**	**137,271**	**229**	**111,010**	**5.15**
569	**63**	**122**	**79**	**-**	**184,289**	**-**	**183,494**	**2.33**

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)		Contractual return rate(4)
						Without maturity date(2)(5)	Total	
							NIS million	Percent
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

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

					Consolidated
					December 31, 2023
	Stated in the				Fair value(1)
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	68,866	651	68,212	-	68,863
Securities(2)	26,985	12,421	14,235	183	26,839
Securities which were borrowed	57	-	57	-	57
Credit to the public, net	117,622	10,795	-	105,009	115,804
Credit to the government	1,055	-	366	641	1,007
Assets in respect of derivative instruments	3,651	2,268	771	612	3,651
Other financial assets	228	10	-	218	228
Total financial assets	(3)218,464	26,145	83,641	106,663	216,449
Financial liabilities					
Deposits from the public	191,125	7,979	120,554	58,871	187,404
Deposits from Banks	4,314	-	2,116	2,137	4,253
Deposits from the Government	750	52	675	24	751
Bonds and non-convertible subordinated capital notes	4,767	4,571	-	4	4,575
Liabilities in respect of derivative instruments	3,784	2,268	1,496	20	3,784
Other financing liabilities	2,774	11	-	2,736	2,747
Total financial liabilities	(3)207,514	14,881	124,841	63,792	203,514
Off balance sheet financial instruments					
Transactions were the balance represents credit risk	37	-	-	37	37
In addition, the liability in respect of employee rights, gross - pension and severance pay(4)	865	-	-	865	865

(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 37,779 and liabilities of NIS 11,826, 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, 2022
	Stated in the Balance Sheet				Fair value[1]
		(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 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 estimat es 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 effec ts, 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. During the year 2023, the current account model was updated, which increased the fair value by NIS 738 million. Comparative data were not restated.
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, 2023				
	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	**7,439**	**14,116**	**-**	**-**	**21,555**
Shares not for trading	**316**	**-**	**-**	**-**	**316**
Trading Securities	**1,452**	**-**	**-**	**-**	**1,452**
Assets in respect of derivative instruments	**2,268**	**771**	**612**	**-**	**3,651**
Others	**10,805**	**-**	**-**	**-**	**10,805**
Total assets	**22,280**	**14,887**	**612**	**-**	**37,779**
Liabilities					
Liabilities in respect of derivative instruments	**2,268**	**1,496**	**20**	**-**	**3,784**
Others	**8,042**	**-**	**-**	**-**	**8,042**
Total liabilities	**10,310**	**1,496**	**20**	**-**	**11,826**

	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

NOTE 32B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

B. ITEMS MEASURED AT FAIR VALUE ON A NONRECURRENT BASIS

	December 31, 2023				
	Level 1	Level 2	Level 3	Total fair value	Profit in respect of value changes for the year ended December 31, 2023
Investment in shares	**-**	**44**	**-**	**44**	**2**
Non-accruing credit the collection of which is contingent on collateral	**-**	**-**	**12**	**12**	**-**

	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	-

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 2023							
	Fair value as at December 31, 2022	**Profits (losses) 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, 2023**	**Unrealized profits (losses) in respect of instruments held as at December 31, 2023**
Assets								
Assets in respect of derivative instruments	**642**	**4,445**	**85**	**(4,560)**	**-**	**-**	**612**	**556**
Liabilities								
Liabilities in respect of derivative instruments	**26**	**(1)**	**-**	**(7)**	**-**	**-**	**20**	**(4)**

	For the year ended 31, December 2022							
	Fair value as at December 31, 2021	**Profits (losses) 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)

(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

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
					December 31, 2023
			(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 expectation curve	-	**2.29**	**1.60-3.00**
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	**20**	**1.66**	**1.20-1.95**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**3**	**1.01**	**0.91-1.09**
		2. Counter-party credit risk	**589**	**1.42**	**1.00-4.60**
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI expectation curve	**17**	**2.34**	**1.60-3.00**
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**3**	**1.01**	**0.91-1.09**
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**		

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
					December 31, 2022
			(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	0.23-(0.14)
		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	0.23-(0.14)
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		

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, 2023			
	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	**44**	**54**	-	-
Other liabilities	-	-	-	-
Shares (included in shareholders' equity)(10)	**5,835**	**5,835**	-	-
Credit risk in off- balance sheet financial instrument(9)(11)	-	-	-	-

	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)	-	-	-	-

Note: For notes to the table see page 265.

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	**2023**	**2022**	**2021**	**2023**	**2022**	**2021**	**2023**	**2022**	**2021**
Net interest income (expenses)*	-	-	-	-	-	-	-	-	-
Non-interest income (expense)	**1**	-	1	-	-	-	-	-	-
Operating and other expenses**	-	-	-	-	-	-	**42**	36	35
Total	**1**	-	1	-	-	-	**(42)**	(36)	(35)

* 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]
11	**13**	**72**	**80**	**6**	**8**	**1,131**	**1,131**	**10**	**11**
-	**-**	**-**	**-**	**-**	**-**	**786**	**786**	**-**	**-**
-	**-**	**-**	**-**	**13**	**23**	**-**	**1**	**-**	**-**
10	**19**	**1,050**	**1,540**			**11**	**14**	**51**	**109**
26	**26**	**-**	**-**			**1**	**4**	**-**	**-**
-	**-**	**-**	**-**			**-**	**-**	**-**	
3	**3**	**81**	**83**	**-**	**-**	**5**	**667**	**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]
12	13	32	44	3	7	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	-	-	205	760	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		
2023	**2022**	**2021**	**2023**	**2022**	**2021**	**2023**	**2022**	**2021**
(39)	(16)	(9)	**34**	12	2	**-**	-	-
(25)	(26)	37	**(4)**	(15)	(2)	**-**	-	-
9	9	6	**-**	-	-	**-**	-	-
(73)	(51)	22	**30**	(3)	-	-	-	-

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, 2023		For the year ended December 31, 2022		For the year ended December 31, 2021	
	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	****37**	**16**	**30	16	**31	15
Directors not employed by the Bank	**5**	**9**	6	9	4	10

* Not including VAT on salary.

** Of which: employee benefits for short term - NIS 34 million (2022 - NIS 28 million, 2021 - NIS 29 million), other benefits after termination of employment - NIS 3 million (2022 - NIS 2 million, 2021 - NIS 2 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		
	2023	2022	2021	2023	2022	2021
In respect of assets						
From credit to the public	**38**	13	3	**34**	12	2
In respect of liabilities						
On deposits from the public	**(43)**	(17)	(10)	**-**	-	-
Total net interest income (expense)	**(5)**	(4)	(7)	**34**	12	2

* For information regarding the terms of transactions and outstanding balances with related and interested parties, see Note 33 E, below.

For notes to the table see page 265.

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) Employment terms of the outgoing CEO of the Bank

The employment agreement of the CEO of the Bank, 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.

The outgoing President and CEO of the Bank terminated her office on November 29, 2023.

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 outgoing CEO of the Bank, which apply as from October 12, 2016 (hereinafter - "the beginning date"), taking into consideration the provisions of the Compensation Act (hereinafter - "the terms of employment"), when there was 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 outgoing CEO of the Bank was 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 outgoing CEO will be increased by an additional fixed component, which is not to exceed the amount of 2.5 monthly 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.

In accordance with the employment terms, the Bank or the outgoing CEO were entitled to inform the other party, at any time during the employment period, of the termination of the employment, by giving an advance notice of at least three months prior to the termination date. During the period of the advance notice, if the outgoing CEO continued 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 the advance notice, had been provided for in full in the financial statements of the Bank prior to the beginning date, and would be paid to the outgoing CEO, in accordance with the said provision, also if the Bank decides not to continue the employment of the CEO during the period of advance notice. In accordance therewith, upon the termination of office of the outgoing CEO, she was paid a proportionate part of the cost of the advance notice period that had been provided in the financial statements of the Bank, as stated, based on the period in which she had not been employed during the period of the advanced notice.

The terms of employment define a no-competition period of three months with full pay, the cost of which being part of the previous employment terms of the outgoing CEO, had been provided in the financial statements of the Bank prior to the beginning date, and would be paid to the outgoing CEO, in accordance with the said provision, in the case of termination of employer/employee relations in accordance with the terms of employment. Upon the termination of office of the outgoing CEO, the cost of the no-competition period, which, as stated, had been provided for in the financial statements of the Bank, was paid to her.

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 accordance therewith, in respect of her period in office as CEO in 2023, the Compensation Committee and the Board of Directors had resolved to pay to the outgoing CEO an annual award of NIS 414 thousand. Accordingly, the fixed annual compensation of the outgoing CEO with the addition of the annual award in respect of the year 2023 did not exceed the maximum amount according to Section 2(b) of the Compensation Act, proportionally to her period of office in 2023.

In respect of her period of employment as from the beginning date, the outgoing CEO was 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 rights 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 outgoing CEO was also 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 were released in her favor at date of termination of employment relations.

If the expense regarding the payroll cost of the outgoing CEO, which is borne by the Bank in respect of 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 outgoing CEO would not be deductible tax wise, as stated in Section 4 of the Compensation Act.

(2) Terms of employment of the incoming CEO of the Bank:

Mr. Eli Cohen, the incoming CEO of the Bank, took office on November 30, 2023. The terms of engagement of the incoming CEO were approved in January 3, 2024, by the General Meeting of Shareholder of the Bank (hereinafter – "engagement terms"), following approval by the Compensation Committee and the Board of Directors, with effect as from the date on which he took office as CEO of the Bank (hereinafter – "the effective date"), taking into consideration the provisions of the Compensation Act, the rules of the compensation policy for Officers of the Bank, as approved by the General Meeting on March 1, 2023 (the compensation policy document had been attached to the notice convening the Meeting dated January 24, 2023, Ref. No. 2023-01-009553) (hereinafter – "the compensation policy"), the Companies Act and the provisions of Proper Conduct of Banking Business Directive No. 301A – "Compensation policy of a banking corporation".

In accordance with the employment terms, as of date of approval of the employment terms by the General Meeting of Shareholders, the cost of the annual compensation of the CEO of the Bank, within its meaning in the Compensation Act (namely, excluding payments and allowances for the payment of pension and severance compensation in accordance with the Law, as detailed in engagement terms), including upon the granting of an annual award in an amount of the maximal annual award, which does not exceed the maximal amount according to Section 2(a) of the Compensation Act. Notwithstanding the above, the terms of office and engagement of the CEO may exceed the maximal amount according to Section 2(a) of the Compensation Act (though not higher than the maximal amount according to Section 2(b) of the Compensation Act), to the extent that the Compensation Committee and the Board of Directors approve immaterial changes in the terms of engagement on the incoming CEO, in accordance with Section 11 of the compensation policy and with no need for further approval by the General Meeting of Shareholders, as well as in cases of the updating of allowances existing in the financial statements stemming from updates applying to the terms of office and engagement (such as an allowance for payments to be made during the no-competition period in case of a change in the monthly salary or linkage increments on payroll or accumulated vacation pay).

The salary of the incoming CEO is linked to the Consumer Price Index in accordance with the Compensation Act and subject to the maximal amounts thereof. In the event of a decrease in the Index, the salary will not change until the rise in the Index offsets the decrease thereof. The incoming CEO will be entitled to social allowances in respect of Executive's Insurance or Provident Fund and/or Pension Fund, Further Education Fund, recreation pay and to the reimbursement of expenses incurred in the performing of his duties, and to annual vacation and sick leave in accordance with the terms of engagement. The incoming CEO is entitled to the use of a motor vehicle provided by the Bank and to its maintenance expenses. The incoming CEO has the right to apply for changes and adjustments to be made to the terms related to the terms of employment subject to parallel changes and amendments made to other related terms, except with respect to instructions regarding the pension arrangement and the matter of a motor vehicle provided by the Bank, and everything subject to any Statute, and that following which, no change will take place in the cost of compensation of the incoming CEO within its meaning in the Compensation Act (namely, with the exclusion of payments and allowances for pension and severance indemnity according to the Law).

In accordance with the employment agreement, the Bank or the incoming CEO have the right to inform the other party, at any time during the employment period, as to the termination of his office, at a date not earlier than three months following the date of delivery of the notice (hereinafter – "the advance notice period"). During the advance notice period, the CEO will continue to perform his duties in a full and appropriate manner, unless the Bank decides to forego his services during the whole or part of the advance notice period, either consecutively or intermittently during that period. To the extent that the incoming CEO continues in office during the advance notice period, he would be entitled to the monthly salary and related benefits according to the employment agreement. To the extent that the Bank decides not to employ the CEO during the advance notice period, the Bank will pay to the CEO an amount equal to the salary and related benefits to which he would have been entitled during the advance notice period, had he continued in office as the CEO of the Bank until the end of the advance notice period.

The employment terms contain a provision regarding a no-competition period of three months in consideration for three full monthly salaries including the value of the social benefits to which he would have been entitled had employer/employee relations, according to the employment agreement, existed during this period.

The Compensation Committee and the Board of Directors are entitled to grant to the incoming CEO an annual award in an amount not exceeding NIS 255 thousand, if they find that justifiable circumstances exist. The maximal amount of the award shall be linked to the rise in the CPI. The annual award will not form part of the monthly salary of the incoming CEO and shall not be one of the components taken into consideration in computing severance compensation, provident fund contributions, social or other allowances and any other benefit or payment whatsoever. There is nothing in the employment terms that derogates the right of the incoming CEO to an annual award with regards to the year 2023, in respect of his office as Vice President and Chief Risk Manager, in accordance to the compensation policy and compensation plan of the Bank.

In respect of his employment period since January 1, 2022, the incoming CEO is entitled to the funds and rights accumulated in his favor under the pension arrangement in respect of the severance compensation allowances in the said period, and Section 14 of the Severance Compensation Act shall apply. In respect of his employment period until January 1, 2022, the CEO will be entitled to severance compensation under the Law and to severance compensation based on his monthly salary, as it would amount to on date of termination of employer/employee relations, or to the funds and rights accumulated in his favor under the pension arrangement with respect to severance compensation during the said period, the higher of the two amounts. Notwithstanding the above, in the event that the incoming CEO resigns from office during a period of three years following the effective date, then the incoming CEO would be entitled to severance compensation in respect of the employment period until January 1, 2022, on the basis of his last monthly salary prior to his appointment as President and CEO of the Bank, or to the funds and rights accumulated in his favor under the pension arrangement in respect of the severance compensation allowances in respect of his employment period until January 1, 2022, the higher of the two amounts, unless the Board of Directors decides otherwise and subject to any Law.

In the event that the payroll expense regarding the incoming CEO, borne by the Bank in respect of a tax year, will, exceed the "maximal payment" as defined in Section 4 of the Compensation Act, a part of the payment that shall be made will not be recognized as an expense tax wise, in accordance with Section 4 of the Compensation Act.

(3) Terms of engagement of the Chairman of the Board of the Bank

Mr. Ron Levkovich was appointed for the first time as 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, was for a period of up to three years from date of approval by the Meeting. On November 1, 2023, the General Meeting of Shareholders approved his appointment as Director for an additional period of up to three years as from November 5, 2023. 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. In accordance with the approval by the General Meeting held on November 1, 2023, i8n the matter of the updating of the monthly remuneration of the Chairman of the Board, the maximum fixed amount of remuneration of the Chairman of the Board is NIS 3,237 thousand per annum (including payment and provisions for severance pay and pension in accordance with the law). 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 and to the 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 no-competition period of three months with full remuneration (not including related benefits except for the company car and its maintenance expenses). In accordance with the approval of the General Meeting of November 1, 2023, the payment for the no-competition period would be in accordance with the monthly remuneration applying immediately following the approval by the said General Meeting, and not according to the monthly remuneration payable at the termination of his office (namely, it will not includes updates of the monthly remuneration due to changes in the CPI following the date of the said General Meeting). The Board of Directors has the right to waive the period of no-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 Bitterman-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 2023, 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 fifth 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 BINO Holdings Ltd.; GHD Investments (2006) Ltd.; Binohon Ltd; DADA Management Ltd. And 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). Serves as director in TLI- the company of royalties of the cinema and television creators in Israel Ltd. 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. 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 2023, 27 meetings in plenary session and 62 meetings of its various Board Committees (including ad-hoc meeting for locating CEO).

APPOINTMENTS AND RETIREMENTS

Ms. Smadar Berber-Tzadik informed on May 17, 2023, of her intension to terminate her office as President and CEO of the Bank, following a term of office of sixteen years as President and CEO and some twenty years in total in senior positions at the Bank. On May 29, 2023, the Board of Directors decided on the formation of a committee of the Board for locating candidates for the office of President of the Bank (hereinafter – "the Committee"), headed by the Chairman of the Board Mr. Ron Levkovitz with the participation of the following Directors: Ms. Pnina Bitterman-Cohen, Mr. Gill Bino, Dr. Ronen Harel and Mr. Ilan Aiesh. On August 13, 2023, the Board of Directors decided to adopt the recommendation of the Committee and appoint Mr. Eli Cohen to the office of the next President and CEO. Mr. Eli Cohen serves at present as VP, member of Management and Head of the Risk Management Division (CRO) of the Bank. On September 18, 2023, the Supervisor of Banks approved said appointment.

In accordance Mr. Eli Cohen started his office as President and CEO of the Bank on November 30, 2023, and the office of Ms. Smadar Berber-Tzadik terminated on November 29, 2023.

The Board of Directors wish to thank Ms. Smadar Berber-Tzadik for her successful term of office, in which she had led the Bank to impressive achievements, succeeding in building and designing a growing, efficient and qualitative banking group, while creating value for all stakeholders. The Board of Directors wish Mr. Eli Cohen success in his office.

On November 15, 2023, the Board of Directors decided to appoint Ms. Lilia Kaplan to the office of Chief Risk Officer (CEO), VP, Head of the Risk Management Division and member of Management of the Bank. The appointment took effect on November 30, 2023. The Board of Directors wish her success in her office.

On January 28, 2024, Adv. Haviva Dahan announced her desire to retire. The final date will be determined in coordination with the bank.

MEMBERS OF SENIOR MANAGEMENT

Mr. Eli Cohen	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
Mrs. Liliya Kaplan	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)

* Since November 30, 2023. Mrs. Smadar Barber-Tzadik served as CEO until this date.

** Since November 30, 2023. Mr. Eli Cohen served as CRO until this date.

For further details on the senior manager members, see Article 26A “Senior Office Holders at the Bank” in the Bank’s periodic report for 2023, 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 2023.

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 2022 was discussed by the Bank's Audit Committee on March 28, 2023. The Internal Audit's report for the first half of 2023 was discussed by the Bank's Audit Committee on September 10, 2023. The Internal Audit's report for 2023 will be discussed during April 2024.

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	
	2023	**2022**
Salary and bonuses	**1,564**	1,472
Severance pay, provident fund, advanced study fund, vacation, national insurance and additional benefits	**331**	379
Value of benefits	**76**	72
Total salary and included expenses	**1,971**	1,923

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, Mr. Eli Cohen, 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. Serves as a director in TLI- the company of royalties of the cinema and television creators in Israel 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 26, 2024, 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 5, 2024, 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 5, 2024, 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 12, 2024, 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 5, 2024, 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	
	2023	2022	2023	2022
For audit work(4):				
Auditors of the Bank	**7,154**	7,558	**5,868**	6,268
Another auditor	**-**	-	**-**	-
Total	**7,154**	7,558	**5,868**	6,268
For additional Auditing related services:				
Auditors of the Bank	**-**	-	**-**	-
For tax services:				
Auditors of the Bank	**1,259**	938	**1,197**	898
Other services:				
Auditors of the Bank	**2,925**	2,783	**2,802**	2,565
Total	**4,184**	3,721	**3,999**	3,463
Total auditors' remuneration	**11,338**	11,279	**9,867**	9,731

(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)

						2023
Name	**Title**	**Position**	**Holdings in the Bank's equity**	**Salary**	**Bonus**	**benefits**[1]
Ron Levkovich	Chairman of the Board of Directors	**100%**	**0.02%**	**2,423**	**-**	**114**
Eli Cohen	Chief Executive Officer*	**100%**	**-**	**1,309**	**473**	**80**
Smadar Barber-Tsadik	Chief Executive Officer**	**100%**	**-**	**2,748**	**414**	**106**
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	**100%**	**-**	**1,693**	**539**	**79**
Benzi Adiri	Executive Vice President, Head of the Corporate division	**100%**	**-**	**1,420**	**516**	**82**
Ella Golan	Executive Vice President, Head of Resources and financial management Division	**100%**	**-**	**1,477**	**526**	**79**

						2022
Name	**Title**	**Position**	**Holdings in the Bank's equity**	**Salary**	**Bonus**	**benefits**[1]
Ron Levkovich	Chairman of the Board of Directors [7]	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

* From November 30, 2023.

** Until November 29, 2023.

(1) Value of benefits (including: car benefit, cellular phone, health insurance, etc.).

(2) Actuarial gain in respect of changes in the discounting interest rate of the liabilities of the Bank for severance pay and post-retirement benefits.

(3) Not including VAT on salaries.

(4) Including gain in respect of updated actuarial calculations in respect of the liability of the Bank, for severance pay and other post-retirement benefits.

(5) 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".

(6) 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.

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 (2)	Total payroll and related expenses (3)(4)	Total payroll and related expenses according to remuneration law(3)(5)	Loans granted under ordinary market terms(6)
455	**43**	**-**	**3,035**	**2,675**	**-**
384	**2,079**	**(142)**	**4,183**	**2,416**	**923**
309	**35**	**-**	**3,612**	**3,133**	**-**
427	**445**	**(18)**	**3,165**	**2,697**	**-**
428	**-**	**-**	**2,446**	**2,235**	**2,375**
382	**-**	**(39)**	**2,425**	**2,230**	**42**

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 (2)	Total payroll and related expenses (3)(4)	Total payroll and related expenses according to remuneration law(3)(5)	Loans granted under ordinary market terms(6)
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	-

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 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(3) to the financial statements.

Mrs. Smadar Barber-Tsadik - was employed by the Bank since January 9, 2005 and has served as CEO of the Bank since March 19, 2007 until November 29, 2023.

Mr. Eli Cohen- has been employed by the Bank since June 6, 2004 and serves as the CEO of the Bank since November 30, 2023.
For details of the engagement agreement with Mr. Eli Cohen- see Note 33F(2) to the financial statements and the immediate report of the Bank dated November 29, 2023 (reference no. 2023-01-107974).

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 2023, among others, to Mr. Sirkis, see immediate report of the Bank dated January 24, 2023, 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 2023, among others, to Mr. Grissaro, see immediate report of the Bank dated January 24, 2023, 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 2023, among others, to Mrs. Golan, see immediate report of the Bank dated January, 24, 2023, 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 2023, among others, to Mr. Adiri, see immediate report of the Bank dated January, 24, 2023, 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 transaction") 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 March 1, 2023, the details of which were reported in an immediate report dated January 24, 2023 (Ref. No. 009553-01-2023) (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, and on June 10, 2021, 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 (the amendments of 2020 entered into effect as from July 1, 2020) regarding everything relating to the limits of the liability, the terms for renewal of the policy within the framework transaction, the scope of the insurance fees, the amounts of insurance deductibles (to be paid by the Group and not by the officers) and in continuation, cancellation of the limits stated with respect to the annual insurance fees and amounts of deductibles and the addition of reasonable litigation expenses in excess of the commitment limit (the limit of the scope of the insurance coverage has remained unchanged). All other terms of the framework transaction remain 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 reports by the Bank dated June 9, 2020 and May 4, 2021 (Ref. Nos. 01-051931-2020 and 077970-01-2021, respectively), which are presented herein by way of reference.

The above resolutions comprise updates 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 ended in February 2023, and which allowed the renewal of the insurance policy also with respect to Directors and Officers who are controlling shareholders of 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, 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. These resolutions had been also expresses within the framework of the updated compensation policy, which was approved on March 1, 2023, for a period of three years.

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.

In continuation thereof, 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 in respect of the Bank and the Bank Group, including subsidiary companies of the Bank as well as the controlling shareholder FIBI Holdings Ltd. 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. 080383-01-2022) the contents of which is presented herein by way of reference.

On June 27, 2023, 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 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 the President and CEO of the Bank and directors who are controlling shareholders for an additional insurance period beginning on July 1, 2023, and ending on June 30, 2024. For details as to the terms of the policy, see the immediate report by the Bank dated June 27, 2023 (Ref. No. 060133-01-2023) the contents of which is presented herein by way of reference.

2. On September 12, 2023, 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 12, 2023 (Ref. No. 086287-01-2023) included herein by way of reference. The said approved remuneration agrees with the compensation policy for officers of the Bank, as approved by the general meeting of shareholders of the Bank held on March 1, 2023, 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 24, 2023 (Ref No. 009553-01-2023) presented herein by way of reference.

3. 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.

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.

4. 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 and July 6, 2023, 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, 2023	**157**	**-**	**-**	**157**	**427**	**-**	**-**	**-**	**584**
December 31, 2022	151	-	-	151	509	-	-	-	660

	December 31, 2023		December 31, 2022	
	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)	**43,942**	**56,415**	2,238	7,285

(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, in conventional times, 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.

The "Swords of Iron" War

Upon the outbreak of the War, the Bank pitched in to assist in the war effort. The Bank has significantly increased the donation budget to the tune of millions of shekels and appointed a designated forum for the formation of an assistance outline, according to which the Bank acts through contributions for the support of residents of the Gaza surrounding settlements and of the fighters in the field.

The leading projects to which the Bank has contributed:

- Nir Oz – The Bank has adopted the Nir Oz Kibbutz and with the leadership of the Management of the Bank has assisted in the rehabilitation of the Nir Oz community, which included, inter alia, the finding of a solution for alternative dwelling in Carmei Gat, bridging loans for payment to suppliers, introduction to the HOMEZ Company, which designed and prepared the apartments for occupancy and a donation for the purchase of flora and decorative accessories for the apartments with the aim of recreating the feeling of the Kibbutz.
- Erez Kibbutz – The Bank has donated to the Kibbutz community a first aid room including lifesaving equipment for the benefit of the community.
- Contributions to associations that support the fighting and purchase of equipment as well as supporting fighters on the ground, including support of Battalion 411 and the "Black Snake" Squadron adopted by the Bank;
- Maccabiah Games – Contribution for the Israeli delegation to the Pan America Maccabi Games held in Buenos Aires, composed of 74 sportspersons, of whom 45 came from the settlements surrounding Gaza.

All that in addition to significant contributions for purchase of equipment and support of the evacuee population, as well as donations to medical centers supporting the war effort, such as the Barzilai and Kaplan Hospitals.

At the same time, hundreds of Bank employees took an active part in a variety of voluntary activities regarding various subjects aiding the war effort, including, inter alia, logistic aid for soldiers, collection and transportation of equipment, assistance to residents of the surrounding Gaza area, conducting activities for evacuee children, and helping out in agricultural work.

In total for 2023, 530 work days were contributed, the cost of which to the Bank is estimated at NIS 500 thousand.

Concurrently, the Bank continues to act as in ordinary times in accordance with the following centers:

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 look after 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" - Within the framework of the project "Adopt a warrior", the Bank adopts two combat units. As part of this adoption, the Bank participates in events of the units and supports the well-being of the soldiers all through their service period.
- "Special in uniform" - The Bank participates in 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 adopted three units and is expected to adopt one more unit, each of them having an adopting branch of the Bank, which accompanies the unit during the period of service.
- "G cleft" - The Bank, jointly with the "Lior Foundation", contributes to the "G cleft" program, which grants scholarships to shell-shocked ex-servicemen studying music within a treatment framework, at the Tel Aviv Music Conservatory.
- "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, Bank employees have been integrated into the mentoring process and have enriched the participants with respect to financial contents.

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.

Cooperation 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.

Volunteering employees

Employees of the Bank participate in different voluntary activities, such as cooking meals for lone service personnel and involvement in the teaching of basics in the financial field among youth, and this in addition to voluntary activities connected with the War effort, as described above.
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.

The total amount of involvement and contribution to the community of the Bank Group amounted in 2023 to NIS 8 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

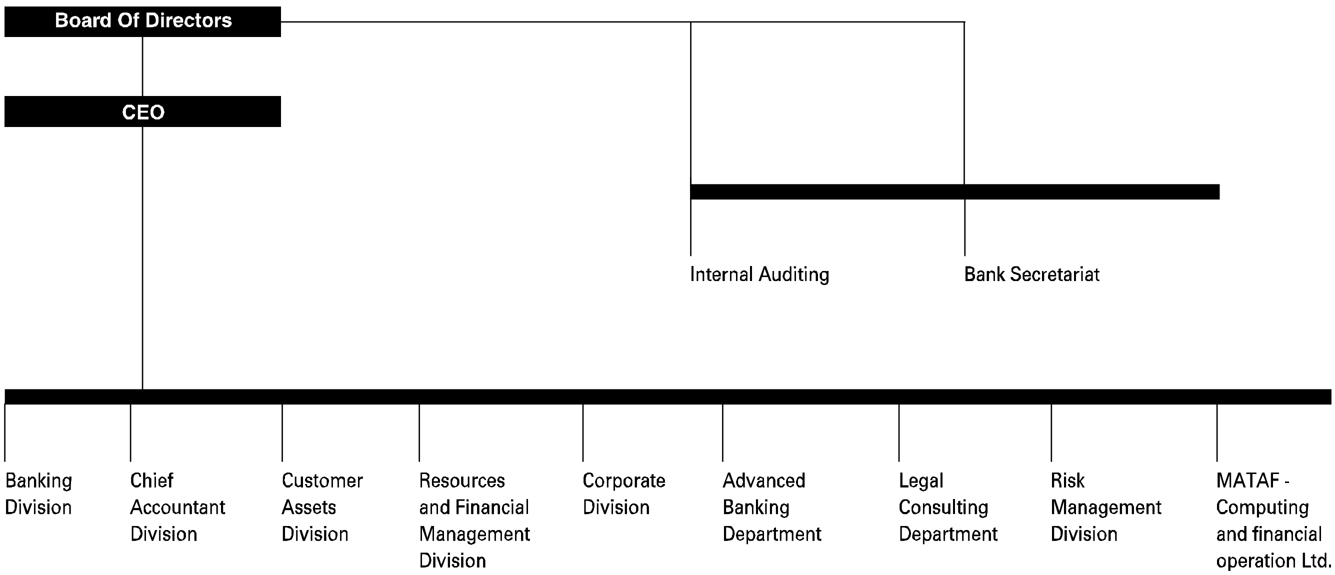
	December 31			
	2023			2022
	Cost	Accumulated depreciation	Balance	Balance
				NIS million
Buildings and land (including installations and improvements to rented properties)	**1,388**	**599**	**789**	817
Equipment (including computers, furniture and vehicles)	**654**	**566**	**88**	85
Total	**2,042**	**1,165**	**877**	902

As of December 31, 2023, the Bank Group owned or leased a total area of 52.6 thousand square meters in 41 properties (31.12.2022 - 54 thousand square meters in 43 properties). In addition, the Group rents in Israel a total area of 36 thousand square meters in 105 properties throughout the country (December 31, 2022 - 36 thousand square meters in 107 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, 2023, the Bank Group operated via 127 branches and sub-branches (106 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 managers while preparing for the future challenges.

PERSONNEL

The following are details of manpower in the Bank Group in terms of positions[1]

	2023		2022	
	Annual average	Balance at end of the year	Annual average	Balance at end of year
The Bank	**3,349**	**3,327**	3,384	3,360
Subsidiaries	**285**	**289**	292	286
Total at the Bank Group	**3,634**	**3,616**	3,676	3,646

(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.

	2023	2022
Large business segment	**253**	229
Medium business segment	**159**	152
Small and minute business segment	**910**	943
Household segment	**1,954**	1,990
Private banking segment	**106**	92
Institutional entities	**219**	198
Financial management segment	**33**	72
Total	**3,634**	3,676

Details of cost and salary of employee position at the Bank (in NIS thousands)

	2023	2022
Cost of employee position (excluding bonus)	**438**	417
Cost of employee position (including bonus)	**485**	462
Salary of employee position (excluding bonus)	**292**	278
Salary of employee position (including bonus)	**330**	314

Nature of the human resources

The average seniority of the Bank's employees amounted to 18.9 years, compares to 18.6 in 2022. The average age of the Bank's employees was 48.3, compares to 47.8 in 2022.

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 2023 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 74%.

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 2023, the Bank refreshed Ethical situations with the Bank's employees, and accordingly to update the dilemma book. Furthermore, 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 2023, 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 17,318 in 2023, compare with 24,572 days of instruction in 2022.

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.

On July 13, 2023, and on August 16, 2023, the Bank together with the clerks representative committee and the Federation of Labor, respectively, signed collective labor agreements for the years 2023-2026, following the agreement signed at BLL, as stated above. The agreement stated principles for the payment of a selective supplement to employees for the years 2023-2026. Furthermore, employee social terms and additional benefits have been improved, the model for permanent employment has been modified to that accepted in the banking system, and the number of employees engaged under technological agreements has been increased.

On July 13, 2023, MATAF, the MATAF employee representative committee and the Federation of Labor signed a collective labor agreement for the years 2023-2025. The agreement stated principles for the payment of a selective supplement to employees for the years 2023-2025. Also regularized was the distant work procedure, the number of employees who may be engaged under personal employment agreements has been increased and flexibility has been allowed in engaging outsiders for particular project work.

In December 2023, an agreement was signed in Massad Bank with the employees committee for the years 2023-2027. The salaries of the employees of Massad are linked to the salaries agreement of Bank Hapoalim and is based on the agreement signed in Bank Hapoalim signed in August 2023.

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 2023, 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 2023 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 4,737 million on December 31, 2023 (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 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, in particular, to that stated in the Chapter "Leading and developing risks" regarding the large number of regulatory initiatives relevant to the banking system introduced in the recent period.

THE "SWORDS OF IRON" WAR

Since the murderous attack on Israel by the Hamas terror organization on October 7, 2023, and the outbreak of the "Swords of Iron" War which followed, and in order to provide assistance to customers and to the banking system to face the challenges of this situation, the Supervisor of Banks and other Regulators have published directives, relief measures and guidelines regarding many matters, the principal of which, are as follows:

Proper Conduct of Banking Business Directive No. 251 – Adjustments to Proper Conduct of Banking Business Directives for the purpose of facing the "Swards of Iron" War (Provisional Instructions), hereinafter - the "Provisional Instructions".

The Provisional Instruction is updated from time to time in accordance with requirements. As a general rule, the Directive will remain in effect until March 31, 2024, except for certain alleviations, in respect of which different effective periods had been fixed. The last updated version was published on February 4, 2024, containing the main reliefs stated below and which are still in effect as of date of publication of this Report:

- Amounts have been fixed for deviation from credit lines, according to the class of customer, in respect of which a banking corporation may not define or agree to the credit line in advance and in writing within one business day, on condition that the bank will take action to settle the credit line as soon as possible.
- The limitation regarding avoidance for at least three months of an initiated approach to a customer who had refused a retail credit offer in the past, has been removed.
- The possibility of using alternative identification procedures upon providing payment services to beneficiaries of the service has been extended, under certain circumstances, to higher amounts.
- As regards loans intended to finance the purchase of land for development or building purposes, it is clarified that the rise in the financing ratio over the limit of 80%, stemming from interest accrued until December 31, 2023, as a result of the "grace period" granted after October 7, 2023, shall not be taken into account in computing the financing ratio.
- A loan for the purpose of constructing a sheltered space or for improving protection in a residential apartment under determined terms, the amount of which does not exceed NIS 200,000, has been exempted from certain limitations on the granting of a residential loan.
- A banking corporation is authorized to approve a residential loan which is not intended for the purchase a right to real estate, of up to a financing ratio of 70% (instead of 50%), on condition that the amount of the loan in excess of a financing ratio of 50% shall not exceed NIS 200,000.
- The period in which financial statements will be considered as updated and the period for delivery of semi-annual financial data for the purpose of granting credit to corporations, has been extended by six months.

- Permission has been granted for deferral of dates for rotation applying to managers or to employees in sensitive positions, and also for taking consecutive leave.
- Different dates relating to the granting of residential loans have been extended (issue of approval in principle for the granting of a residential loan, as well as issue of letters of intent, settlement confirmations, notices of effecting insurance on behalf of the bank in cases where the insurance policy provided by the borrower does not agree with the requirements of the bank, and consent for a second-degree pledge on a property in favor of another party).
- Alleviation in obtaining the signature of a borrower, who due to the War is not able to sign the residential loan documents, subject to the signature of the loan documents by the other borrowers, as required.
- Alleviation has been granted regarding the duty of proper disclosure in accordance with Proper Conduct of Banking Business Directive No. 449 – Simplification of agreements at date of application by a customer for the deferral of loan repayments, within the framework of the outline for assistance to customers in facing the implications of the War.
- Deferral of one month has been granted for the delivery of a statement in accordance with Proper Conduct of Banking Business Directive No. 460 – Presentation of transactions in a securities deposit.
- It has been determined that the customer's signature on an application for the deferral of payments, in accordance with the assistance outline, would not be required, on condition that a documented consent of the customer is obtained.
- The date for conducting a safety survey in respect of high risk systems and banking communication systems has been deferred.
- Effective dates have been deferred in respect of various amendments to a part of Proper Conduct of Banking Business Directives, the essence of which is detailed below.
- Alleviations regarding the work of the Board of Directors, allowing the participation of a director in a meeting through use of advanced means of communication, to be considered as physical presence for the purpose of fulfillment of the duty of participation, as well as alleviations regarding dates for approval of minutes of meetings and distribution of resolutions.
- The date has been extended, under certain conditions, for review and approval of risk management policy documents, as required by Proper Conduct of Banking Business Directive No. 310.

A comprehensive outline by Bank of Israel and adopted by the banks, regarding assistance to customers in facing the implications of the "Swords of Iron" War

For details of the alleviation outline, published on October 15, 2023, and expanded on December 17, 2023, and on March 4, 2024, see, "Effect of the 'Swords of Iron' War" in the Board of Directors and Management Report.

Announcement by the Supervisor of Banks regarding operation of branch offices of the banking system in view of the security situation.

The announcement, published on October 8, 2023, allows the banking system to operate in a limited format as regards business hours – shut down branch offices located up to 40 km from the Gaza Strip, and operate branches in a limited format of "core branches" (being branches prepared in advance for emergency situations, and in respect of which, a decision to operate them in emergency situations had been taken in advance) within a range of between 40 to 80 km from the Gaza Strip, as well as change their hours of business, where circumstances require.

Furthermore, on October 12, 2023, Bank of Israel published a letter, detailed hereunder, which contains reference to the importance of maintaining availability and continuation of banking services, to the extent possible, as well as a permit for providing banking services by means of mobile branches.

Bank of Israel letter in the matter of "Focal points for the banking system by the Supervisor of Banks, following the "Swords of Iron" War

The letter, dated October 12, 2023, states the expectations of the Supervisor of Banks with respect to different matters in view of the situation, including maintenance of availability and continuity of banking services, to the extent possible and in accordance with existing constraints, handling, assistance and response to customer approaches on background of the War, with an emphasis on urgent approaches and approaches on humanitarian background: alleviation of the burden and assistance to customers in honoring their obligations, preparations against cyber attempts and attacks and against increasing cases of fraud by employees and customers; examination of all risks under increased monitoring, adjustment of the Bank's policy and models in accordance with stricter stress tests and examination of the required level of liquidity, and examination of appropriateness of the means and tools for risk management, while strengthening the control, management, audit and internal control mechanisms in all the principal lines of operation; holding discussions by the Board of Directors with respect to the preparations required by the situation, and more.

Bank of Israel letters in the matter of "Planning of the capital and profit distribution policy"

In the letter dated November 12, 2023, banks were guided to review, as if date of the letter, their dividend distribution and the purchase of their own shares policies for the coming period. In a further letter dated March 5, 2024, the banking corporations were guided to reexamine the dividend distribution and the purchase of their own shares policies for the coming period, and this on background of the continuation of the War and the scope of its impact upon the economy (for details regarding this matter, see Note 24A to the financial statements).

Deferral of Due Dates Act (Provisional instructions – "Swords of Iron") (Contracts, Court verdicts or payments to Authorities), 2023.

The Act was published on October 18, 2023 and was amended on December 31, 2023, with a view of providing support for certain population groups (mostly, those directly hit by the War, residents located around the Gaza Strip and in the North of the country and a part of the security forces) allowing them deferral of the date of performing an action stated in a contract, deferral of a date stated in a peremptory Court verdict or final decision, and deferral of a due date for payments to Authorities, all under certain conditions and for certain periods.

Drawers of Uncovered Checks Regulations (Limitation on the application of the Act), 2023

The Regulations, published on October 26, 2023, and amended on December 25, 2023, state that checks that had been dishonored with respect to all the population, in the period from October 7, 2023 to October 31, 2023, would be permanently deducted from the number of dishonored checks for the purpose of the Uncovered Checks Act. Likewise, checks that had been dishonored, in the period from November 1, 2023 to January 21, 2024, would be permanently deducted from the number of dishonored checks for the purpose of the Uncovered Checks Act if drawn by individuals or corporations to whom one of the terms stated in the Regulations applies, including where the registered address or the postal address appearing on the records of the Bank, is mentioned in the list of settlements entitled to relief according to the Addendum to the Deferral of Due Dates Act (Provisional instructions – "Swords of Iron") (Contracts, Court verdicts or payments to Authorities), 2023, active reserve service, and more.

Nonenforcement position – Pension consultation provided by a banking corporation outside its branch offices to existing customers of the pension consulting operation

The Capital Market, Insurance and Savings Authority published on November 1, 2023 and renewed on February 22, 2024, a position, according to which, it will not enforce the prohibition on providing consultation services outside bank branches, if the pension consultation is provided by digital means or by telephone, during the "Swords of Iron" War period, to existing customers who obtain service at branches the activity of which has been reduced or which are not open to the public due to the security situation, or where the customers are residents of evacuated settlements as detailed in the Addendum to the Deferral of Due Dates Act (Provisional instructions – "Swords of Iron") (Contracts, Court verdicts or payments to Authorities), 2023, or reservists on active service, conscript or regular servicemen of the IDF entitled to the deferral of a due date during the second determining period under the said Act. The position will remain in effect from January 1, 2024 and until the end of the period of declaration of a special situation in the back of the country or until May 31, 2024, the earlier of the two. Furthermore, a proposal was published on February 12, 2024, for the amendment of the Supervision over Financial Services Act (Consultation, marketing and pension clearing system) (Amendment No. 13), 2024, proposing to allow the offering of remote consultation by means of digital and telephone services.

Letter by the Commissioner in charge of participation in credit data regarding "clarifications relating to reporting to the credit data system"

In the letter that was sent on October 19, 2023, to sources of financial data, including the Bank, the data sources were required to strictly verify that business relief granted to customers in respect of their obligations, would be reported to the credit data system, in a way that does not express negative indication regarding the customer. The letter includes, inter alia, reference to the deferral or standstill in repayment of loans, and to dishonored checks. It further notes, that in cases where the source of information assumes that the relief it intends to grant might be reflected in the report as a negative indication, it has to inform the customer accordingly, prior to granting the relief.

Furthermore, in accordance with the provisional instruction published by the Commissioner on November 9, 2023, arears in repayment of a debt to a source of financial information should be reported to the data base only after the passing of 60 days from the due date of the of the repayment, and not after 30 days, as presently stated.

BANKING

Proper Conduct of Banking Business Directive No. 345 – Principles for the effective management of climate related financial risks

The Directive was published on June 12, 2023, on background of the increasing awareness in Israel and globally to the existence and scope of financial risks stemming from the potential damage of climate related events and processes, and with a view of strengthening the financial stability of the banking system with respect to climate risks. The Directive is based on a document issued by the Basel Committee in June 2022, and states twelve principles for the effective management of climate related financial risks. The principles involve aspects of corporate governance, framework of internal control, capital adequacy and liquidity, risk management procedures, monitoring and reporting, comprehensive management of credit risks, market, liquidity, operating risk and other risks, and scenario analysis.

The Directive takes effect at the end of 24 month from date of publication.

Amendment of Proper Conduct of Banking Business Directive No. 434 – Joint accounts – "Surviving party" clause and treatment of existing liabilities following death

The Amendment, published on June 11, 2023, states instructions intended to increase awareness of parties to a joint account to the existence of a "Surviving party" clause in account opening documents and to its ramifications, as well as facilitating the handling by the surviving party of liabilities existing through the means of payment that had been issued for the use of the deceased party, whether by the bank or by nonbanking means of payment (jointly with other banking corporations).

The Amendment was due to take effect at the end of twelve months since date of publication, however, entry into effect has been deferred to September 11, 2024, in accordance with the Provisional Instruction. Likewise, deferred to March 11, 2024 at the latest, is the date for making an initiated approach to existing joint account holders, who had not elected that the "Surviving party" clause would apply to them, in order to draw their attention to the matter, and a bank should adopt reasonable efforts to complete the process regarding the customers until the end of one year since date of publication of the Amendment.

Amendment of the Banking Act (customer service) 1981

In accordance with the Amendment, issued within the framework of the Economic Program Act (Legislation amendments for the implementation of the economic policy for the budget years 2023 and 2024) 2023, which was published on June 6, 2023, banks are required to send to each customer, at the beginning of each calendar month, a notice stating the total amount of commissions (excluding in respect of residential loans, if existing) charged by the Bank to the customer in the month preceding the date of the notice, the amount of interest (excluding in respect of residential loans) charged by the Bank to the customer in the month preceding the date of the notice, and the amount of commissions and interest charged to the customer in the preceding month in respect of residential loans. The notice has to be delivered by means allowing immediate and accessible communication, to the extent possible, and the Supervisor of Banks was authorized to determine instructions in this matter (for this purpose, Bank of

Israel published on August 20, 2023, a draft amendment to Proper Conduct of Banking Business Directive No. 420 – Delivery by communication channels). The above notice is to be sent starting on June 2, 2024, except for the information regarding the total amount of commissions (excluding residential loans), which already has to be sent starting on January 1, 2024. An Amendment to the Economic Program Act was published on February 28, 2024, which retroactively defers the above stated date to March 1, 2024 instead of January 1, 2024.
It is further stated that, with respect to the pricelists, banks have to inform their customers that they may charge amounts or rates that are lower than those stated in the pricelists. Also added is the prohibition on charging a commission in an amount or rate higher than those stated in the pricelists, and that no commission may be charged to a customer by a banking corporation unless it is in respect of a service actually provided. It is also stated that the Supervisor of Banks may impose upon a bank a monetary sanction of NIS 750, 000, in respect of violation of each of the new instructions relating to the charging of commission according to the bank's pricelists.

Proper Conduct of Banking Business Directive No. 501 - Management of the customer service and support layout

The Directive was published on March 26, 2023, as part of a planned across-the-board layout of Bank of Israel, the purpose of which is to determine principles and standards for proper and fair conduct of Banks as regards their customers. The Directive establishes principles for providing service and support for customers of the banking system in the different service channels, and states commitments in the field of corporate governance and work procedures, including formation of strategy, policy, work plan and procedures, allocation of resources and development of supervision and control mechanisms, which would ensure promoting compliance by a bank with the said principles. Furthermore, banking corporations are required to act in a systematic, persistent and continuous manner in order to improve compliance with the principles, while applying judgment and determining preferences in accordance with materiality to the customer. Among the main principles established in the Directive may be mentioned, inter alia, the maintenance of an optimal service and support layout that would provide an appropriate response in a variety of service channels, both on a current basis and in urgent cases; maintenance of useful communication providing information and simple and clear explanations at an appropriate timing; avoiding service obstructions, damage or misstatements, difficulties or the charging of excessive costs; availability and quality all through the period of engagement with the customer; providing service and support adjusted to customer needs and providing response to the different needs of the different customer groups, and providing appropriate and qualitative service on the various channels. A banking corporation is also required to determine a service charter and publish details regarding the customer service and support layout. The Directive was due to take effect at the end of one year after publication date, (except for certain requirements relating to the publication of the service charter and details regarding the service and support layout, in respect of which different effective dates have been fixed), however, its entry into effect has been deferred to June 26, 2024, in accordance to the provisional instruction.

Proper Conduct of Banking Business Directive No. 422 - Opening of a credit balance current account and management of an account

As stated by Bank of Israel, in view of the importance and need for basic banking services for all population groups, an update of the Directive was published on March 26, 2023. Within the framework of the update, inter alia, the duty of offering basic services in respect of conducting a current account in Israeli currency has been expanded also to an account having a debit balance that does not exceed the approved credit line; application of the Directive has also been expanded to a foreign worker legally residing in Israel; to basic means of payment that a bank is required to offer its customers, and in the absence of reasons for reasonable refusal, are added also a charge card that is a bank card for immediate charging or a bank card for cash withdrawals which allows transactions of a limited amount for a period; also expanded are transactions that can be effected by means of online banking channels; it has been clarified that no argument of "reasonable refusal" would be admitted regarding the opening of a credit balance current account and regarding the management of an account by means of basic payment services, due only to the belonging of the customer to a particular group of population, this without derogating from the right of a bank to determine limitations and controls required according to the circumstances of the matter; a duty has been added requiring a bank to deliver to the customer in writing the decision regarding refusal to provide the services stated in the Directive, as well as the reasons therefore, subject to any legislation, within ten business days from date of application; also added to the duty of notifying the discontinuation of a service stated in the Directive, is the duty to state the reasons therefore. The Directive was due to take effect at the end of one year after publication date, however, its entry into effect has been deferred to June 26, 2024, in accordance to the provisional instruction.

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 transactions and the direct channel 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.

Likewise, on January 25, 2024, an additional draft was published for the updating of the Banking Rules (Customer service) (Commissions), 2008, within the framework of which are proposed the following principal changes:

- Updating of the manner and date of charging the securities deposit management fee, so that this commission would be charged at fixed shekel amounts in respect of each of the following classes of securities: securities traded in Israel (taking into consideration two levels depending on the value of the securities deposit), securities traded abroad and securities not traded on a stock exchange. The date of charging the commission would be at the beginning of the month in respect of the preceding month.
- Permitting banks to charge a commission in respect of investment consultancy services, which would be determined as a percentage of the value of the securities deposit at the beginning of the year, and which would be collected at the beginning of the service in respect of a full year (or proportionally according to the period of service, if the investment consultancy service is provided for a period shorter than one year).

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.

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, save 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.

CAPITAL MARKET

Proper Conduct of Banking Business Directive No. 461 – Activity of a banking corporation as a broker/dealer

The Directive, published on July 19, 2023, regularizes the activity of banking corporations in the field of financial brokerage – receipt and transfer of instructions involving securities and foreign currency derivative transactions (excluding SPOT transactions) on behalf of customers, both in their role as brokers and also by way of trading on their own account. The Directive is intended to protect investors, while maintaining efficiency, fairness, transparency and minimizing risk. In its role as broker/dealer, a banking corporation is required to implement proper principles of corporate governance, risk management, control and internal audit, including where the activity is conducted in dealing rooms. The Directive is based upon global standards originating in European legislation for securities activity – Mifid II – and the FX global code principles, as well as on fiduciary and care duties applying to banking corporations. The main duties applying to banking corporations within the framework of the Directive, are: determination of a policy regarding the execution of instructions, customizing the operations for the particular customer, qualification and suitability of the staff involved in the operations, code of conduct, documentation requirements, providing information to the customer and obtaining information from him, proper disclosure regarding the conflict of interest and implementation of control over the operation.

The Directive will take effect at the end of 18 months since date of publication thereof, followed by the removal of Proper Conduct of Banking Business Directive No. 461 (in its previous version) in the matter of securities activity of a banking corporation on account of its customers, as well as Proper Conduct of Banking Business Directive No. 419 in the matter of the safekeeping of documents.

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 was 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.

INCREASING COMPETITION

Proper Conduct of Banking Business Directive No. 473 – Distribution of credit cards of issuers engaged with a banking corporation in a distribution agreement

The Directive was published on June 29, 2023, in continuation of Section 7F of the Banking Act (Customer service), 1981 (hereinafter – "the Section"), which states that upon an approach by customer of a banking corporation asking to enter into a credit card agreement with the bank, or upon approach by a bank to the customer offering such an engagement, the banking corporation has to distribute the credit cards issued by issuers engaged with the bank in a distribution agreement, as defined in the Section. The Section also states that a banking corporation shall not unreasonably refuse to engage in a distribution agreement with an issuer, and that the Supervisor of Banks shall issue instructions regarding the implementation of the Section. The present Directive of the Supervisor includes instructions regarding credit card distribution processes in accordance with the Section, including terms of a distribution agreement, manner of distribution, details which the banking corporation has to present to the customer, and terms that would be considered as unreasonable refusal to enter into a distribution agreement.

Regulation of Engagement in Payment Services and Initiation of Payments Act, 2023

The Act was published on June 6, 2023, with a view of regularizing engagement in payment services and the initiation of payments, and enabling nonbanking factors to enter this market and develop therein. According to the Act, engagement in "payment services" shall require obtaining a "Payment company" license issued by the Securities Authority, excluding exempt entities, which include banks. "Payment services" include clearing of payment transactions, issuance of means of payment, management of a payment account and advanced initiation service (in advanced initiation, the customer empowers the initiator to deliver payment orders on his behalf with no need for the customer to confirm the payment order to his payment account manager).Basic initiation is not considered a payment service, and engagement therein requires another license having mitigating requirements (in basic initiation, the initiator enters details of the customer's instructions and the customer is required to confirm the instructions to the payment account manager). The existing credit card companies are required to hold a license applying to "provider of payment services having a stabilized importance", with licensing and supervision in their respect being, generally, effected by Bank of Israel.
The Act establishes also the "duty of linking" - "Provider of services for the transfer of funds between individuals" (at the present time, only payment applications agree with the definition stated in the Act), having a "wide scope of operation" (whose share in the receipt/transfer of funds in this way exceeds 20%), is required to enable customers, being individuals, to receive or transfer funds from/to another payment application, based on an identifying item. In addition, a payment account manager for a beneficiary, must enable the customer to receive funds from a payer being a customer of another bank or another payment application, based on an identifying item (excluding where the payment account manager has a small scope of operation, and in case of a bank or an auxiliary corporation - has an asset value not exceeding 5% of the total asset value of all banks in Israel).
The Act includes many more provisions, among which, forbidding a payment account manager to charge a fee for granting access to the initiator of a payment, maintaining a register of providers of payment services by the Authority, and the definition of the duties of a payments company regarding a line of subjects: data protection and risk management, management of customer funds,

forbidding the use of funds for the granting of credit, and restrictions on additional business. In accordance with the Act, payment corporations would be allowed to participate in non-designated controlled payment systems, and would be allowed to pay interest on credit balances, under stated conditions.
The Act states sanctions, including criminal sanctions, in respect of violation thereof.

Financial Information Service Act, 2021

The Act, published on November 18, 2021, creates a comprehensive and uniform regulation of financial information service activity. In accordance with the Act, providing such service will require a license or permit by the relevant Regulator of the service provider (the Supervisor of Banks in the case of a bank, clearing agent and an auxiliary corporation). It is further stated that a provider of this service shall not be allowed to engage in cost comparison or brokerage services, as defined in the Act, in relation to the products and financial services that he (or parties related to him) provide to his customers. The Act includes instructions regarding the operations and duties of the entities providing financial information services and of the "sources of information" (including, according to the Act, banks clearing agents, auxiliary corporations, institutional bodies [provident funds and insurance companies], holders of license for providing deposit and credit services, holders of license for extending credit, and holders of a license for operating a credit brokerage system), including with respect to privacy protection, use of information, its protection and obtaining authority to make use of it, to charge a fee, avoidance of conflicting interest and consumer instructions. The Act states gradual effective dates for the different sources of information and types of information. The latest effective date determined for all types of information required from information sources comprising banks or auxiliary corporations is December 14, 2023.
A Financial Information Service Order (Deferral of the effective date of the Act regarding a source of information comprising a bank, an auxiliary corporation or a clearing agent with respect to a securities basket and accounts of large corporations), 2023, was published on June 12, 2023, which deferred the effective date of the securities basket to September 15, 2023, and the effective date of the duty to provide access to information regarding accounts of large corporations to April 14, 2024.

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.
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. 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. A draft amendment to the Directive was published on December 6, 2023, which includes adjustments to

the technological standard supporting the access to financial information pertaining to large corporations, as well as adjustments relating to the matter of access to the service of initiation of payments.

All the effective date stated in the Directive have entered into effect, with the exception of delivery of data relating to accounts of large corporations, which is expected to take effect on April 14, 2024, in accordance with the Financial Data Service Order (Deferral of the effective date of the Act in the matter of a source of information which is a bank, an auxiliary corporation or a clearing agent in respect of a securities basket and accounts of large corporations), 2023.

PRIVACY PROTECTION

Privacy Protection Regulations (Instructions regarding information delivered to Israel from the European Economic Zone), 2023

The Regulations, published on May 7, 2023, impose on data base owners in Israel, holding data delivered to Israel from the European Economic Zone (excluding data received directly from the entity to which such data relates) several duties, including the duty to allow the entity to which the data relates, to demand the deletion of the data concerning it that is illegal or that is no longer required for the purpose for which it had been delivered, the duty to maintain a mechanism ensuring that the data base does not keep data no longer required, as defined in the Regulations, the duty to maintain a mechanism ensuring that the data kept in the data base is correct, complete, clear and updated, and the duty, in certain circumstances, to inform the entity to which the data relates, as to the receipt and delivery of the data. The Regulations apply also to data bases that contain both data received from the Eurozone and data received from Israel.

The Regulations entered into effect on August 7, 2023, with respect to data received from the Eurozone following the publication of the Regulations, and will take effect within one year from publication thereof with respect to data from the Eurozone existing in the data base in Israel at date of publication. Respecting data received otherwise than from the Eurozone and which is kept in an Israeli database keeping also data from the Eurozone – the Regulations will apply as from January 1, 2025.

Draft guideline by the Privacy Protection Authority as to the duties of the Board of Directors in fulfilling the Privacy protection Regulations.

According to the draft guideline, published for public comment on September 7, 2023, the position of the Authority is, that in corporations, the core operation of which is the processing of personal data, or which operations create enhanced privacy risk, fulfillment of certain requirements, supervisory in nature, imposed by the Privacy Protection Regulations (Data protection), 2017, on data base owners or holders comprising corporations, have to be performed by the Boards of Directors of such corporations. These duties include approval of the definition document regarding the data base, approval of the central principles of the organizational data protection procedure, holding of discussions dealing with the findings of the risk review and penetration tests and approval of the action taken to correct deficiencies, holding periodic discussions regarding data protection events that had occurred in the organization, and discussion of the results of the periodic audit with respect to compliance with the Regulations.

LEGAL PROCEEDINGS

Note 25H 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 October 31, 2023, S&P Ma'alot agency updated the rating outlook of banks in Israel, including the Bank but excluding the two large banks, from "stable" to "negative", on background of the rise in geopolitical risks, and following a similar act regarding the credit rating of the State of Israel. S&P Ma'alot also ratified the issuer rating of the Bank at a level of AAAil. On January 1, 2024, S&P Ma'alot ratified the issuer rating of the Bank at a level of AAAil/negative and its subordinate debt notes with a loss absorption mechanism at a level of AAil-.
- On May 23, 2023, 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 October 24, 2023, Moody's announced the placing of the credit rating of the five large banks in Israel, including the Bank, on "examination for the lowering of the rating", and this in continuation of a similar move regarding the credit rating of the State of Israel. On February 13, 2024, Moody's announced the lowering of the rating of long-term deposits with the five large banks in Israel, including the Bank, from "A2" to "A3" with a negative outlook, this similarly to a move regarding the credit rating of the State of Israel.
- On August 6, 2023, Midrug agency 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 of the Bank 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.

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 – customers related to "Beyond" at the private banking center, collect points for realization in the world of benefits 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 nature 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 HOUSEHOLDS 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.
- A digital branch was established in September 2023, offering its customers remote banking services, provided both digitally as well as by means of a permanent team of bankers, providing response at extended business hours and with a messenger service to the home of the customer.
- 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, hi-tech workers 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. It is noted that the Bank has again won the tender by the Ministry of Defense for the granting, as from December 1, 2023, of loans and for providing banking services to entitled personnel of the Defense System

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 and Life Plan systems.
- 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 against all the banks in Israel and mainly against the four largest banks. Competition also exists against financial entities that provide non-banking credit, such as credit card companies, leasing companies and insurance companies. The Bank makes available to the small businesses a variety of financial solutions, among which is the Small and Middle Market Businesses Fund guaranteed by the Government, 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 2023, among which were the integration of advanced and innovative technologies, maximization of digital transformation, development of ability to process and analyze data bases for identifying opportunities and customer tailored value offers, and this in order to intensify customer experience, while striving for operational excellence, maintenance of updated technology and constant improvement in data protection and cyber.

PRINCIPAL ISSUES IN THE FIELD OF TECHNOLOGICAL INFRASTRUCTURE DEVELOPED IN 2023

Architecture

The Bank has established a multi-layer up to date modern architecture which would form an advanced and flexible infrastructure allowing the rapid, qualitative and stable development of applications, while emphasizing the following issues:

- A Design Authority methodology was defined and integrated while determining standards for the examination of applications for use in development work matrix.
- A strategy and organizational policy for cloud applications was defined.
- Infrastructure and new methodologies supporting the development of applications was defined (central services catalogue, construction of applications guided by events).

Data

The Bank continues to lead the advanced use of data in favor of customer personalization and improvement of customer experience.

The data field, as part of an advanced banking layout, leads advanced data applications, including:

- Machine learning and modules for natural language processing (NLP) as well as the testing of primary abilities of Generative AI.
- Across the board accessibility to data in the organization and to self-use of advanced tools.
- Management of an organizational data community for the strengthening of the organization as a data lead organization.

All this arising from the strategic understanding that advanced use of data would create high value for customers.

A new innovative infrastructure for data management - "Snowflakes" - was introduced for the first time during 2023. This infrastructure provides fast and effective accessibility to data of the digital services world, in favor of advanced and data-based value offers to customers by way of fast "time to market".

Digital and Innovation

The Bank continues to expand the digital capabilities and value offers, including:

- Decision supporting information to customers of the capital market – AI based reports by "Bridgewise" for the analysis and rating of shares.
- The opening of an ME Branch – a first digital branch with no face-to-face service.
- Additional classes of accounts that may be opened online on the digital – managed accounts (by portfolio managers), indication of credit at opening of the account.
- Expansion of identification means on the vocal service – identification by a onetime password.
- Digital credit card – ordering of a digital credit card allowing immediate use.

- Personal screen regarding mortgages – a personal screen showing the status of applications and confirmations regarding mortgages.
- Multi-bank – a system integrated into the digital of the Bank allowing the customer to observe his accounts in the whole banking system. Also added is the possibility of aggregating information regarding bank and non-bank credit cards.

Improving customer service

The Bank focuses on improving service and communication channels with customers, including:

- Expansion of the services provided by the computerized vocal response – transfers to occasional beneficiaries.
- A package of benefits to customers – benefits to private customers regarding mortgages, interest on credit balances and overdrafts.
- Management of appointments at the branches – computerized management of appointments improving service and avoiding pressure.
- Expansion of services by correspondence with a banker – digital signature of documents.
- Transfer of foreign currency – expansion of classes of transfer: capital and capital market customers.
- Paperless bank – confirmation of digital transactions by means of the mobile phone.

Automation and improvement of business processes

Improvement of service and higher efficiency by continuing the implementation of robotic process automation (RPA) and improvement of business and operational processes, such as:

- Foreclosure – data capture for a report presenting the state of affairs on date of realization, for use by decision makers.
- Expansion of document retrieval at the customer's request.
- Automation of compliance control.

Business development

- Providing trading services and clearing of securities portfolios to Stock Exchange members who are not banks.
- Participation in public offerings, trust hedge funds and after-hours trading.
- Benefits regarding deposits – business models for the automated granting and management of benefits.

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 –enlarging the infrastructure for reporting of credit lines in respect of significant customer activity in the autonomous trading systems.
- ATM – Installing combined stations providing cash and check deposit services in one instrument.
- A new branch system- technological upgrading and modernization of the system's infrastructure as well as innovative design.
- Expanding the applicative monitoring capabilities for the identification of bottlenecks in the different systems, in order to improve response time to customers.
- Raising the redundancy of linkage among the central computer sites.

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, 2023			Year ended December 31, 2022			Year ended December 31, 2021		
	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income	Rate of income
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing assets									
Credit to the public(2)(5)									
- In Israel	**107,154**	**6,722**	**6.27**	101,099	4,350	4.30	87,465	2,995	3.42
Total	**107,154**	**6,722**	**6.27**	101,099	4,350	4.30	87,465	2,995	3.42
Credit to the Government									
- In Israel	**889**	**16**	**1.80**	839	30	3.58	687	13	1.89
Total	**889**	**16**	**1.80**	839	30	3.58	687	13	1.89
Deposits with banks									
- In Israel	**2,813**	**107**	**3.80**	2,990	24	0.80	2,452	-	-
Total	**2,813**	**107**	**3.80**	2,990	24	0.80	2,452	-	-
Deposits with Bank of Israel									
- In Israel	**49,116**	**2,227**	**4.53**	43,302	542	1.25	46,728	47	0.10
Total	**49,116**	**2,227**	**4.53**	43,302	542	1.25	46,728	47	0.10
Securities borrowed									
- In Israel	**82**	**4**	**4.88**	464	5	1.08	223	1	0.45
Total	**82**	**4**	**4.88**	464	5	1.08	223	1	0.45
Held to maturity or available for sale bonds(3)									
- In Israel	**20,247**	**756**	**3.73**	14,520	208	1.43	14,013	93	0.66
Total	**20,247**	**756**	**3.73**	14,520	208	1.43	14,013	93	0.66
Trading bonds									
- In Israel	**396**	**18**	**4.55**	158	2	1.27	302	1	0.33
Total	**396**	**18**	**4.55**	158	2	1.27	302	1	0.33
Total Interest-bearing assets	**180,697**	**9,850**	**5.45**	163,372	5,161	3.16	151,870	3,150	2.07
Non-interest-bearing debtors regarding credit cards	**3,198**			2,972			2,694		
Other non-interest-bearing assets(4)	**21,812**			20,949			17,730		
Total assets	**205,707**			187,293			172,294		

See notes in page 325.

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, 2023			Year ended December 31, 2022			Year ended December 31, 2021		
	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	**20,193**	**575**	**2.85**	29,795	197	0.66	29,602	1	-
Fixed-term	**100,787**	**4,057**	**4.03**	58,260	915	1.57	46,939	236	0.50
Total	**120,980**	**4,632**	**3.83**	88,055	1,112	1.26	76,541	237	0.31
Deposits from the Government									
- In Israel	**286**	**15**	**5.24**	107	2	1.87	169	2	1.18
Total	**286**	**15**	**5.24**	107	2	1.87	169	2	1.18
Deposits from banks									
- In Israel	**726**	**29**	**3.99**	869	10	1.15	1,020	1	0.10
Total	**726**	**29**	**3.99**	869	10	1.15	1,020	1	0.10
Deposits with Bank of Israel									
- In Israel	**3,619**	**2**	**0.06**	4,196	3	0.07	3,299	2	0.06
Total	**3,619**	**2**	**0.06**	4,196	3	0.07	3,299	2	0.06
Bonds and subordinated capital notes									
- In Israel	**4,758**	**204**	**4.29**	4,022	229	5.69	3,403	113	3.32
Total	**4,758**	**204**	**4.29**	4,022	229	5.69	3,403	113	3.32
Other liabilities									
- In Israel	**42**	**2**	**4.76**	125	2	1.60	112	1	0.89
Total	**42**	**2**	**4.76**	125	2	1.60	112	1	0.89
Total Interest-bearing liabilities	**130,411**	**4,884**	**3.74**	97,374	1,358	1.40	85,544	356	0.42
Non-interest-bearing deposits from the public	**54,659**			71,519			69,407		
Non-interest-bearing creditors in respect of credit cards	**1,694**			1,674			2,008		
Other non-interest-bearing liabilities(6)	**6,867**			6,044			6,164		
Total liabilities	**193,631**			176,611			162,123		
Total capital resources	**12,076**			10,682			10,171		
Total liabilities and capital resources	**205,707**			187,293			172,294		
Interest spread			**1.71**			1.76			1.65
Net return on interest-bearing assets (7)									
- In Israel	**180,697**	**4,966**	**2.75**	163,372	3,803	2.33	151,870	2,794	1.84
Total	**180,697**	**4,966**	**2.75**	163,372	3,803	2.33	151,870	2,794	1.84

See notes in page 325.

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

C. AVERAGE BALANCES AND INCOME RATES - ADDITIONAL INFORMATION ON INTEREST-BEARING ASSETS AND LIABILITIES ATTRIBUTED TO ACTIVITY IN ISRAEL

	Year ended December 31, 2023			Year ended December 31, 2022			Year ended December 31, 2021		
	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	**147,252**	**8,131**	**5.52**	137,517	3,941	2.87	129,187	2,431	1.88
Total interest-bearing liabilities	**101,126**	**(3,527)**	**(3.49)**	77,238	(665)	(0.86)	68,533	(106)	(0.15)
Interest spread			**2.03**			2.01			1.73
Israeli currency linked to the CPI									
Total interest-bearing assets	**15,403**	**830**	**5.39**	12,587	940	7.47	11,199	595	5.31
Total interest-bearing liabilities	**8,603**	**(351)**	**(4.08)**	8,170	(467)	(5.72)	7,476	(238)	(3.18)
Interest spread			**1.31**			1.75			2.13
Foreign currency (including linked to f-c)									
Total interest-bearing assets	**18,042**	**889**	**4.93**	13,268	280	2.11	11,484	124	1.08
Total interest-bearing liabilities	**20,682**	**(1,006)**	**(4.86)**	11,966	(226)	(1.89)	8,535	(12)	(0.14)
Interest spread			**0.07**			0.22			0.94
Total activity in Israel									
Total interest-bearing assets	**180,697**	**9,850**	**5.45**	163,372	5,161	3.16	151,870	3,150	2.07
Total interest-bearing liabilities	**130,411**	**(4,884)**	**(3.74)**	97,374	(1,358)	(1.40)	84,544	(356)	(0.42)
Interest spread			**1.71**			1.76			1.65

See notes in page 325.

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, 2023 compared with the year ended December 31, 2022			Year ended December 31, 2022 compared with the year ended December 31, 2021		
	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	**380**	**1,992**	**2,372**	587	768	1,355
Total	**380**	**1,992**	**2,372**	587	768	1,355
Other interest-bearing assets						
In Israel	**479**	**1,838**	**2,317**	(28)	684	656
Total	**479**	**1,838**	**2,317**	(28)	684	656
Total interest income	**859**	**3,830**	**4,689**	559	1,452	2,011
Interest-bearing liabilities						
Deposits from the public						
- In Israel						
Demand	**(273)**	**651**	**378**	1	195	196
Fixed-term	**1,712**	**1,430**	**3,142**	178	501	679
Total	**1,439**	**2,081**	**3,520**	179	696	875
Other interest-bearing liabilities						
In Israel	**3**	**3**	**6**	35	92	127
Total	**3**	**3**	**6**	35	92	127
Total interest expenses	**1,442**	**2,084**	**3,526**	214	788	1,002
Total interest income less interest expenses	**(583)**	**1,746**	**1,163**	345	664	1,009

(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, 2023 in the amount of NIS 304 million (year ended on December 31, 2022 amount of NIS 192 million was added and for the year ended on December 31, 2021 an amount of NIS 79 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 183 million, NIS 200 million and NIS 212 million were included in interest income for the years ended December 31, 2023, December 31, 2022 and December 31, 2021 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 th e compared periods.

APPENDIX 2 -
CONSOLIDATED STATEMENT OF INCOME - MULTI-PERIOD DATA

(NIS million)

	Year ended December 31,				
	2023	**2022**	**2021**	**2020**	**2019**
Interest Income	**9,850**	5,161	3,150	2,878	3,085
Interest Expenses	**4,884**	1,358	356	241	483
Interest Income, net	**4,966**	3,803	2,794	2,637	2,602
Expenses (income) from credit losses	**502**	123	(216)	464	138
Net Interest Income after expenses from credit losses	**4,464**	3,680	3,010	2,173	2,464
Non-Interest Income					
Non Interest Financing income	**142**	113	303	148	225
Commissions	**1,502**	1,489	1,444	1,371	1,286
Other income	**8**	9	9	4	9
Total non-Interest income	**1,652**	1,611	1,756	1,523	1,520
Operating and other expenses					
Salaries and related expenses	**1,746**	1,680	1,601	1,532	1,601
Maintenance and depreciation of premises and equipment	**341**	332	340	344	353
Amortizations and impairment of intangible assets and goodwill	**122**	113	105	96	92
Other expenses	**668**	630	606	597	608
Total operating and other expenses	**2,877**	2,755	2,652	2,569	2,654
Profit before taxes	**3,239**	2,536	2,114	1,127	1,330
Provision for taxes on profit	**1,090**	884	728	368	478
Profit after taxes	**2,149**	1,652	1,386	759	852
The bank's share in profit of equity-basis investees, after taxes	**113**	74	69	29	51
Net profit:					
Before attribution to non-controlling interests	**2,262**	1,726	1,455	788	903
Attributed to non-controlling interests	**(90)**	(59)	(50)	(38)	(38)
Attributed to shareholders of the Bank	**2,172**	1,667	1,405	750	865

					NIS
Primary profit per share attributed to the shareholders of the Bank					
Net profit per share of NIS 0.05 par value	**21.65**	16.62	14.00	7.48	8.62

APPENDIX 3 -
CONSOLIDATED STATEMENT OF INCOME - MULTI QUARTER DATA
(NIS million)

Year				**2023**				**2022**
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Interest Income	**2,561**	**2,590**	**2,523**	**2,176**	1,804	1,382	1,104	871
Interest Expenses	**1,415**	**1,363**	**1,205**	**901**	614	372	245	127
Interest Income, net	**1,146**	**1,227**	**1,318**	**1,275**	1,190	1,010	859	744
Expenses from credit losses	**166**	**165**	**99**	**72**	49	43	31	-
Net Interest Income after expenses from credit losses	**980**	**1,062**	**1,219**	**1,203**	1,141	967	828	744
Non-Interest Income								
Non-Interest Financing income (expenses)	**64**	**(1)**	**43**	**36**	53	48	(22)	34
Commissions	**371**	**375**	**368**	**388**	364	370	371	384
Other income	**1**	**-**	**6**	**1**	-	1	-	8
Total non-Interest income	**436**	**374**	**417**	**425**	417	419	349	426
Operating and other expenses								
Salaries and related expenses	**393**	**438**	**466**	**449**	449	416	401	414
Maintenance and depreciation of premises and equipment	**85**	**89**	**83**	**84**	83	86	82	81
Amortizations and impairment of intangible assets	**31**	**31**	**30**	**30**	29	29	28	27
Other expenses	**171**	**175**	**161**	**161**	166	151	151	162
Total operating and other expenses	**680**	**733**	**740**	**724**	727	682	662	684
Profit before taxes	**736**	**703**	**896**	**904**	831	704	515	486
Provision for taxes on profit	**221**	**247**	**307**	**315**	287	249	179	169
Profit after taxes	**515**	**456**	**589**	**589**	544	455	336	317
The bank's share in profit of equity-basis investee, after taxes	**8**	**21**	**19**	**65**	10	27	20	17
Net profit:								
Before attribution to non-controlling interests	**523**	**477**	**608**	**654**	554	482	356	334
Attributed to non-controlling interests	**(24)**	**(22)**	**(21)**	**(23)**	(18)	(15)	(14)	(12)
Attributed to shareholders of the Bank	**499**	**455**	**587**	**631**	536	467	342	322

				NIS				NIS
Primary profit per share attributed to the shareholders								
Net profit per share of NIS 0.05 par value	**4.98**	**4.53**	**5.85**	**6.29**	5.35	4.65	3.41	3.21

APPENDIX 4 -
CONSOLIDATED BALANCE SHEET - MULTI-PERIOD DATA

(NIS million)

	As at December 31,				
	2023	**2022**	**2021**	**2020**	**2019**
Assets					
Cash and deposits with banks	**68,866**	57,130	57,370	57,802	37,530
Securities	**26,985**	16,010	15,091	13,105	10,995
Securities which were borrowed	**57**	12	845	11	9
Credit to the public	**119,240**	117,156	102,240	92,247	88,829
Provision for Credit losses	**(1,618)**	(1,195)	(1,076)	(1,277)	(930)
Credit to the public, net	**117,622**	115,961	101,164	90,970	87,899
Credit to the government	**1,055**	866	811	656	1,039
Investments in investee companies	**786**	687	713	636	605
Premises and equipment	**877**	902	931	965	996
Intangible assets	**328**	317	300	272	248
Assets in respect of derivative instruments	**3,651**	2,825	1,709	1,897	1,091
Other assets	**1,366**	1,245	1,536	1,464	698
Total assets	**221,593**	195,955	180,470	167,778	141,110
Liabilities and Shareholders' Equity					
Deposits from the public	**191,125**	168,269	153,447	141,677	120,052
Deposits from banks	**4,314**	4,821	5,144	2,992	1,137
Deposits from the Government	**750**	237	960	459	353
Bonds and subordinated capital notes	**4,767**	4,749	3,356	4,394	3,674
Liabilities in respect of derivative instruments	**3,784**	2,322	2,038	2,314	1,247
Other liabilities	**4,207**	4,522	5,088	6,407	5,723
Total liabilities	**208,947**	184,920	170,033	158,243	132,186
Capital attributed to the shareholders of the Bank	**12,071**	10,559	10,003	9,141	8,568
Non-controlling interests	**575**	476	434	394	356
Total equity	**12,646**	11,035	10,437	9,535	8,924
Total liabilities and shareholders' equity	**221,593**	195,955	180,470	167,778	141,110

APPENDIX 5 -
CONSOLIDATED BALANCE SHEET - MULTI QUARTER DATA

(NIS million)

Year				2023				2022
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Assets								
Cash and deposits with banks	**68,866**	**61,659**	**58,553**	**57,763**	57,130	56,012	56,305	53,979
Securities	**26,985**	**22,043**	**22,963**	**19,756**	16,010	15,331	15,349	14,850
Securities which were borrowed	**57**	**155**	**104**	**45**	12	630	289	322
Credit to the public	**119,240**	**120,073**	**120,028**	**119,769**	117,156	115,708	113,932	107,342
Provision for Credit losses	**(1,618)**	**(1,496)**	**(1,342)**	**(1,267)**	(1,195)	(1,169)	(1,121)	(1,088)
Credit to the public, net	**117,622**	**118,577**	**118,686**	**118,502**	115,961	114,539	112,811	106,254
Credit to the government	**1,055**	**1,015**	**961**	**935**	866	862	939	843
Investments in investee companies	**786**	**776**	**751**	**730**	687	679	669	740
Premises and equipment	**877**	**871**	**880**	**899**	902	894	904	912
Intangible assets	**328**	**305**	**309**	**307**	317	297	300	297
Assets in respect of derivative instruments	**3,651**	**3,940**	**3,588**	**4,047**	2,825	3,800	2,880	2,332
Other assets	**1,366**	**1,332**	**1,335**	**1,328**	1,245	1,943	1,580	1,484
Total assets	**221,593**	**210,673**	**208,130**	**204,312**	195,955	194,987	192,026	182,013
Liabilities and Shareholders' Equity								
Deposits from the public	**191,125**	**181,274**	**179,013**	**173,390**	168,269	164,902	164,539	154,038
Deposits from banks	**4,314**	**3,824**	**4,145**	**5,481**	4,821	4,998	5,429	6,504
Deposits from the Government	**750**	**665**	**608**	**828**	237	891	570	476
Bonds and subordinated capital notes	**4,767**	**4,751**	**4,713**	**4,770**	4,749	5,030	4,187	3,675
Liabilities in respect of derivative instruments	**3,784**	**3,496**	**3,184**	**3,572**	2,322	3,303	2,412	2,360
Other liabilities	**4,207**	**4,532**	**4,650**	**4,882**	4,522	5,166	4,469	4,672
Total liabilities	**208,947**	**198,542**	**196,313**	**192,923**	184,920	184,290	181,606	171,725
Capital attributed to the shareholders of the Bank	**12,071**	**11,583**	**11,292**	**10,888**	10,559	10,237	9,973	9,851
Non-controlling interests	**575**	**548**	**525**	**501**	476	460	447	437
Total equity	**12,646**	**12,131**	**11,817**	**11,389**	11,035	10,697	10,420	10,288
Total liabilities and shareholders' equity	**221,593**	**210,673**	**208,130**	**204,312**	195,955	194,987	192,026	182,013

THE FIRST INTERNATIONAL BANK OF ISRAEL LTD

THE FIRST INTERNATIONAL
BANK OF ISRAEL LTD

Head Office
42, Rothschild Blv., Tel Aviv 6688310

Tel Aviv Main Branch
42, Rothschild Blv., Tel Aviv 6688310

Jerusalem Main Branch
10, Hillel Street, Jerusalem 9458110

Main Business Branch Northern Israel
20, Halutsei Hata'asiya street, Haifa 2629420

106 Branches all over the country
Our Web Site: www.fibi.co.il

BANK MASSAD LTD
12, Abba Hillel Street, Ramat Gan 5250606
21 Branches
www.bankmassad.co.il

FIRST INTERNATIONAL
ISSUES LTD
42, Rothschild Blv., Tel Aviv 6688310

THE INTERNATIONAL UNIQUE INVESTMENT
MANAGEMENT LTD
38 Rothschild Blv., Tel Aviv 6688307

UBANK TRUST COMPANY LTD
38 Rothschild Blv., Tel Aviv 6688307

Printing: Reytan