Bank Hapoalim B.M.

Annual Periodic Report

2023

Annual Periodic Report for 2023
Bank Hapoalim B.M.

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Balance sheet date	:	December 31, 2023
Report approval date	:	March 6, 2024

Bank Hapoalim

Annual Report



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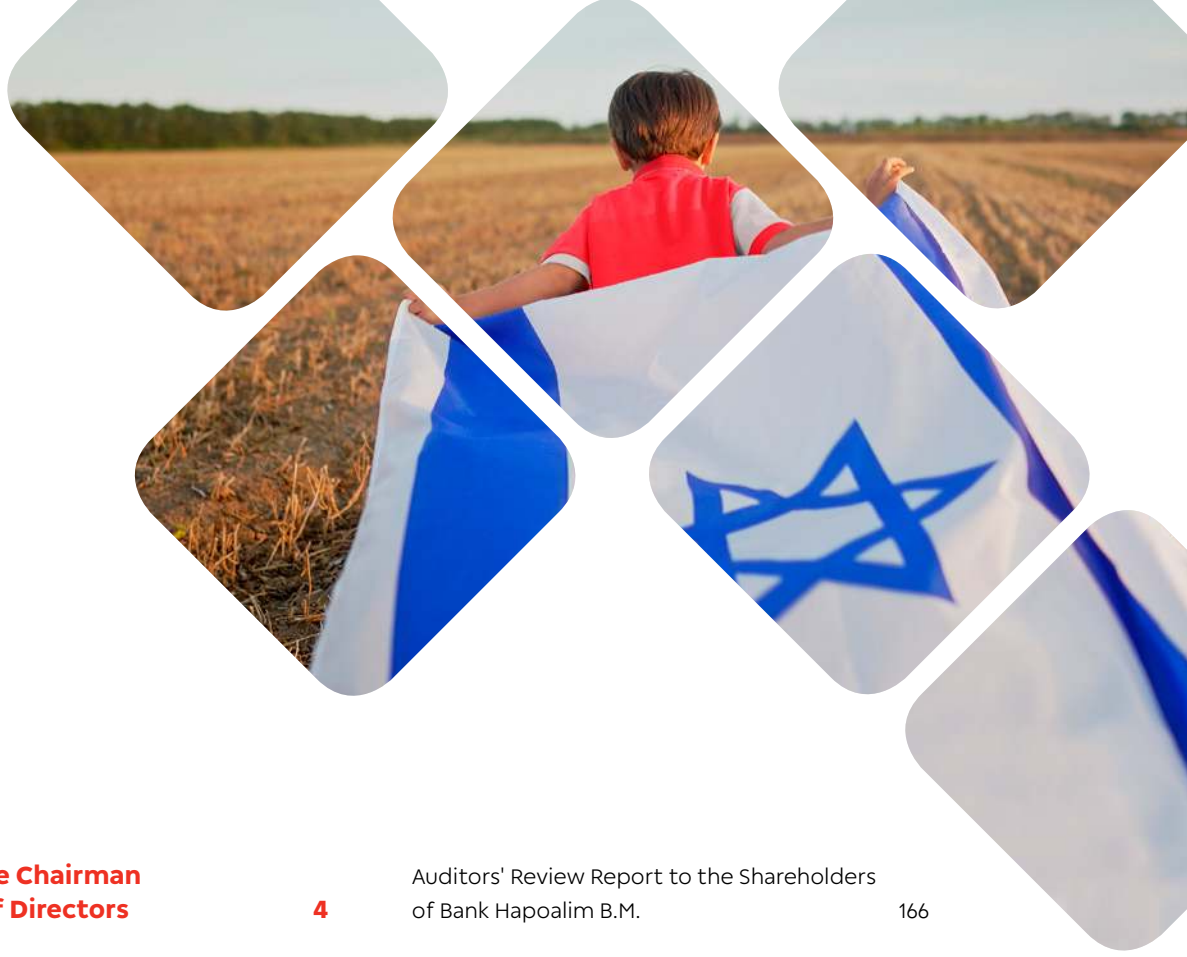

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The Bank has received approval from the Banking Supervision Department to publish the annual financial statements on a consolidated basis only.
Note 34 to the Financial Statements contains the stand-alone condensed financial statements of the Bank.
Stand-alone data concerning the Bank is available in hard copy upon request, or on the Bank's website at www.bankhapoalim.co.il.
This is a translation of the Hebrew report and has been prepared for convenience only.
In case of any discrepancy, the Hebrew version will prevail.

Letter from the Chairman of the Board of Directors

As we do every year, in this letter we will attempt once again to add color, further insight, and interpretations of the financial results reflected in the annual report.

This year, our continuous and homogeneous routine was cut short on October 7th, when our national security and social resilience were put to the test. The terrible war we found ourselves in, which is still ongoing at this time, dragged the economy into a prolonged state of emergency and placed the banks on high alert, as is appropriate under the current geopolitical and economic conditions in Israel.

The events of October were preceded by tensions that challenged Israel's social fabric, while global economic trends affected us too: persistent inflation, rising interest rates, and cyclical crises in investments in technology companies.

With this difficult reality as a backdrop, Bank Hapoalim is releasing a report with good results on every level. Our annual return on equity of 15% reflects the outcome of long-term processes of improving productivity and efficiency, along with temporary factors, such as the high interest rate. Further evident in the report are responsible capital management, on every parameter; robust liquidity; high allowance reserves; a more powerful digital transformation; and diligent work on development and growth plans, as part of the multi-annual strategic plan we began to delineate last year.

The economic routine that has emerged on the home front while the fighting is still in progress is a testament to the resilience of Israel's economy and society. At the outbreak of the war, Israel had a strong economy, low government debt, high private savings, large foreign-currency reserves, and a stable banking system.

The financial markets maintain confidence in the government, which has demonstrated historically that it is capable of fiscal corrections in times of crisis. To preserve this confidence, the government will have to prove once again that it is able to carry out severe corrections to stabilize government debt. These corrections must indicate appropriate prioritization of expenditures, to minimize damage to growth, even under these harsh conditions.

We are aware of our key role in view of this challenging and complex situation, and we will mobilize all of our resources and abilities to maintain stable business continuity, contributing to the economy and society of Israel.

In terms of banking and its characteristics, 2023 provided us with additional proof that the banks' financial stability is affected by customers' confidence, as depositors' money is treated with the utmost respect. The crisis at regional banks in the United States provided another illustration of these principles.

The public's confidence is greatly influenced by the accessibility of services under almost any conditions, even during the threat of missile fire and when a war is in progress. The bank's branches and centers delivered service throughout this period. Our responsible conduct towards our customers, our responsiveness to the hardships they experienced due to the increases in the interest rate, and our attentiveness to their needs and distress due to the war, and the extensive reliefs introduced by the bank in response have all strengthened the trust and partnership we have built over many years.

This is the time, again, to note the depth and breadth of the bank's social commitment to the community and to every part of Israel's human tapestry. The social banking developed at Bank Hapoalim – the Poalim Community Fund, our ESG activities, diversity and accessibility, employee volunteering, and the Financial Growth Center – expanded on its long-running activities and was the first to respond to every civilian need and offer relevant emergency solutions.

Beyond its efforts to adapt its existing activities, the Bank has founded an additional fund, Poalim Rebuild, at up to NIS 100 million in aid, dedicated to supporting restoration of the regions of Israel harmed by the events of the last few months. The fund has commenced its activities and experienced, well-known public figures have joined its management team.

We place high importance on embedding ESG values in our core business; accordingly, this year we released the bank's ESG report for 2023 with our financial statements. We are committed to striving for greater depth of implementation of ESG values in our business operations in the coming years.

The stable functioning of banks is a cornerstone of an orderly economy, all the more so during wartime. We are guided by the best interests of all of the bank's stakeholders – shareholders, customers, suppliers, and employees.

Despite all of the crises of 2023, the emerging challenges of 2024, and the growing risks in the Israeli economy, we succeeded in continuing to deliver essential credit to the economy and helping our customers through extensive reliefs, loan deferrals, and payment waivers in certain cases.

We thank our shareholders for their continuous support and the great confidence they have placed in us over the years, and we reiterate our commitment to our customers to continue to be responsive, service-oriented, and fair.

This is also an opportunity to express our tremendous appreciation for the employees of the bank, who while impressively carrying out its business plans also worked to maintain the continuity of its services under very difficult circumstances, and devoted their time to a wide range of volunteering efforts, due to an intense desire to support the community and society. We are proud of you. You have demonstrated yet again that our social mission is an integral part of our identity as a business. Thanks and acclamation are owed to the bank's management, under the leadership of Dov Kotler, which has demonstrated responsibility, strong opinions, an up-to-date approach, and dedication.

During times like these, the proper parting words might be "May we know better days." I choose to say that we will know better days, as a certainty – because all of us, in the financial system, at industrial factories, in our determined agriculture, in cultural venues, and in every part of the country, will build a better and more hopeful future, together.

Sincerely yours,

Ruben Krupik
Chairman of the Board of Directors

March 6, 2024

Bank Hapoalim

Report of the Board of Directors
and Board of Management



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1. General review, objectives, and strategy

1.1. Condensed description of the Bank

General information

Bank Hapoalim was founded in 1921. Bank Hapoalim is a universal bank that constitutes a "banking corporation" and holds a "bank" license under the directives of the Banking Law. The Bank was privatized in 1997, and the controlling interest was transferred to Arison Holdings (1998) Ltd. and others. In November 2018, the Bank became a banking corporation without a controlling core.

The Bank Group operates in Israel in all of the areas of banking and in areas related to banking, serving millions of customers in Israel and worldwide. A wide range of financial activities are provided, in five main business lines:

- **Corporate banking:** The Bank serves a variety of customers in the business sector in Israel. Major corporate clients are served through sectors specializing in specific industries, including real estate.
  Middle-market clients are served through ten Business Centers located across Israel. The Bank also works with customers in the technology sector, through the Poalim Tech brand; operational services are provided by customer teams nationwide and by a service center. Small-business customers are served by service centers and the retail branch network.
- **Retail banking:** At Bank Hapoalim, retail banking serves households, private-banking customers, foreign residents, and more, through a network of 160 branches, in areas including consumer credit, housing loans, and assets. The Bank also serves its customers through Poalim Close to You service points, fourteen Poalim Invest advising centers, Platinum banking centers for selected customers, and two mobile branches that visit points of service nationwide. The Bank offers its customers a wide range of self-service and digital options, allowing customers to conduct banking activities in independent, efficient, available channels.
- **Capital-market activity in and outside Israel:** This activity includes, among other matters, trading services in securities and tradable derivatives (brokerage), securities custody, trading services in currencies and non-tradable derivatives, services for financial-asset managers, and management of the Bank's nostro portfolio.
- **Investment, innovation, and business development:** Investment activity is primarily conducted through the Poalim Equity Group, which serves as the non-financial asset investment arm of the Bank. The Bank invests in mature companies, startups, and venture-capital funds and works to promote business collaborations and integrate fintechs into its organizational systems. The Bank has also invested in and developed the activity of Bit, the leading payment app in Israel.
- **The international activity** of the Bank Group primarily concerns corporate credit for customers in the United States, through the New York branch, and relationships with banks and financial institutions around the world.

1.2. Forward-looking information

Some of the information in these reports that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macroeconomic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or to changes in the Bank's business plans. Forward-looking information is usually marked by words or phrases such as "forecast," "plan," "objective," "risk estimate," "scenario," "stress scenario," "risk assessment," "correlation," "distribution," "we believe," "expect," "predict," "estimate," "intends," "plans," "aims," "may change," "should," "can," "will," or similar expressions. Such forward-looking expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, the security situation in Israel, technological developments, manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature.

This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize, or even that actual developments may be the opposite of expectations.

The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Construction and Housing, and other entities that publish data and estimates regarding the Israeli and global capital markets.

1.3. Condensed financial information

Diagram 1-1: Key data and indicators as at December 31, 2023, and for the year ended December 31, 2023

Equity

12.02%
Common equity Tier 1 capital ratio

52,430 NIS millions
Shareholders' equity

Credit growth

10.2%
Q4-23: 2.2%
Corporate and commercial credit

2.6%
Q4-23: 0.5%
Housing credit

Credit quality

0.97%
NPL*

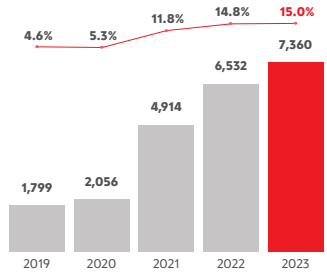
1.92%
Total coverage ratio**

Profitability

15.0%
Q4-23: 14.0%
Return on equity

7,360 NIS millions
Q4-23: 1,761
Net profit

Development of profit and yield



* Credit to the public not accruing interest income as a percentage of the recorded balance of credit to the public.
** Total allowance for credit losses (including in respect of off-balance sheet balances) as a percentage of the recorded balance of credit to the public.

Table 1-1: Condensed financial information and principal performance indicators of the Bank Hapoalim Group over time

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Main profit and loss data – quarterly development								
Net interest income	**3,747**	4,006	4,295	4,037	3,928	3,636	3,187	2,716
Non-interest financing income (expenses)	**310**	203	414	340	337	115	(19)	148
Net financing profit	**4,057**	4,209	4,709	4,377	4,265	3,751	3,168	2,864
Provision (income) for credit losses	**453**	662	579	185	430	45	91	(600)
Fees and other income	**943**	1,089	1,016	982	966	1,002	920	984
Operating and other expenses	**1,897**	2,059	2,181	2,094	2,046	1,972	1,996	1,958
Profit before taxes	**2,650**	2,577	2,965	3,080	2,755	2,736	2,001	2,490
Net profit attributed to shareholders of the Bank	**1,761**	1,669	1,922	2,008	1,750	1,785	1,343	1,654
Return of net profit (in percent)	**14.0%**	13.4%	15.8%	17.0%	15.3%	15.9%	12.3%	15.6%
Financing margin from regular activity[(1)]	**2.48%**	2.65%	2.80%	2.77%	2.64%	2.58%	2.24%	1.91%

(1) Financing profit from regular activity (see the section "Material developments in income, expenses, and other comprehensive income," below) divided by total financial assets after allowance for credit losses, net of non-interest bearing balances of debtors in respect of credit-card activity.

Table 1-1: Condensed financial information and principal performance indicators of the Bank Hapoalim Group over time (continued)

	For the year ended				
	2023	2022	2021	2020	2019
Main performance indicators					
Return of net profit attributed to shareholders of the Bank on equity	**15.0%**	14.8%	11.8%	5.3%	4.6%
Return of net profit attributed to shareholders of the Bank on equity excluding extraordinary items[1]	**15.0%**	14.8%	11.9%	5.7%	7.1%
Return of net profit from continued operations attributed to shareholders of the Bank on equity	**15.0%**	14.8%	11.8%	5.6%	3.9%
Return of net profit from continued operations attributed to shareholders of the Bank on equity excluding extraordinary items[2]	**15.0%**	14.8%	11.9%	5.7%	6.7%
Return on average assets	**1.09%**	1.01%	0.85%	0.41%	0.39%
Ratio of income[3] to average assets	**3.17%**	2.78%	2.48%	2.65%	2.90%
Ratio of net interest income to average assets	**2.39%**	2.09%	1.68%	1.77%	2.05%
Ratio of fees to average assets	**0.58%**	0.57%	0.58%	0.63%	0.71%
Efficiency ratio – cost-income ratio	**38.5%**	44.5%	54.2%	56.9%	66.4%
Efficiency ratio – cost-income ratio excluding extraordinary items[2]	**38.5%**	44.5%	53.9%	56.7%	58.1%
Financing margin from regular activity[4]	**2.67%**	2.35%	1.79%	1.98%	2.26%
Liquidity coverage ratio (LCR)	**129%**	122%	124%	140%	121%
Net stable financing ratio (NSFR)[5]	**128%**	130%	136%	-	-

	December 31				
	2023	2022	2021	2020	2019
Ratio of common equity Tier 1 capital to risk components[6]	**12.02%**	11.25%	10.96%	11.52%	11.53%
Ratio of total capital to risk components[6]	**15.07%**	14.70%	14.22%	14.60%	14.64%
Leverage ratio[6]	**6.92%**	6.34%	6.03%	6.78%	7.61%

(1) Does not include expenses in respect of provisions in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, profit or loss from the separation from Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(2) Does not include expenses in respect of provisions in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(3) Total income – net interest income and non-interest income.
(4) Financing profit from regular activity (see the section "Material developments in income, expenses, and other comprehensive income," below) divided by total financial assets after allowance for credit losses, net of non-interest bearing balances of debtors in respect of credit-card activity.
(5) For additional information, see the section "Liquidity and refinancing risk," below.
(6) For additional information, see the section "Capital, capital adequacy, and leverage," below.

Table 1-1: Condensed financial information and principal performance indicators of the Bank Hapoalim Group over time (continued)

	For the year ended				
	2023	2022	2021	2020	2019
Main credit quality indicators					
Total allowance for credit losses* as a percentage of credit to the public**	**1.92%**	1.64%	**1.65%	2.25%	1.76%
Allowance for credit losses in respect of credit to the public as a percentage of credit to the public**	**1.69%**	1.40%	**1.43%	2.00%	1.58%
Credit to the public, non-accruing or past due by 90 days or more, as a percentage of credit to the public**	**1.06%**	0.89%	**1.20%	1.52%	1.80%
Net charge-offs as a percentage of average credit to the public	**0.09%**	(0.03%)	(0.06%)	0.09%	0.12%
Provision (income) for credit losses as a percentage of average credit to the public***	**0.46%**	(0.01%)	(0.37%)	0.64%	0.44%

* Including the allowance in respect of off-balance sheet balances.

** The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022, prospectively. For this purpose:

1. The overall allowance for credit losses, as a percentage of credit to the public, as at January 1, 2022, after implementation of the CECL directive, is 1.80%.
2. The allowance for credit losses in respect of credit to the public, as a percentage of credit to the public, as at January 1, 2022, after implementation of the CECL directive, is 1.51%.
3. The term "impaired credit" has been eliminated, and non-accruing credit is presented instead. Comparative figures for previous periods have not been restated. If comparative figures had been restated, for convenience (i.e. accruing debts previously classified as impaired debts were not included in non-accruing debts under the new directives), credit to the public that is non-accruing or past due by 90 days or more as a percentage of credit to the public as at December 31, 2021, would be 1.13%.

*** Including provisions in respect of banks and governments.

Table 1-1: Condensed financial information and principal performance indicators of the Bank Hapoalim Group over time (continued)

	For the year ended				
	2023	2022	2021	2020	2019
	NIS millions				
Main profit and loss data					
Net profit attributed to shareholders of the Bank	**7,360**	6,532	4,914	2,056	1,799
Net profit attributed to shareholders of the Bank excluding extraordinary items[1]	**7,360**	6,532	4,957	2,205	2,778
Net profit from continued operations attributed to shareholders of the Bank	**7,360**	6,532	4,914	2,165	1,503
Net profit from continued operations attributed to shareholders of the Bank excluding extraordinary items[2]	**7,360**	6,532	4,957	2,205	2,619
Net interest income	**16,085**	13,467	9,767	8,797	9,319
Net financing profit[3]	**17,352**	14,048	10,848	9,885	9,878
Non-interest income	**5,297**	4,453	4,625	4,379	3,889
Of which: fees	**3,892**	3,705	3,355	3,155	3,240
Total income	**21,382**	17,920	14,392	13,176	13,208
Provision (income) for credit losses	**1,879**	(34)	(1,220)	1,943	1,276
Operating and other expenses	**8,231**	7,972	7,803	7,501	8,776
Operating and other expenses excluding extraordinary items[4]	**8,231**	7,972	7,753	7,487	7,704
Of which: salaries and related expenses	**4,492**	4,387	4,333	3,836	4,108
Additional data					
Net profit per share attributed to shareholders of the Bank – basic (in NIS)	**5.50**	4.89	3.68	1.62	1.13

(1) Does not include expenses in respect of provisions in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, profit or loss from the separation from Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(2) Does not include expenses in respect of provisions in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(3) Net financing profit includes net interest income and non-interest financing income (expenses).
(4) Does not include expenses in respect of provisions in connection with the investigation of the Bank Group's business with American customers and FIFA, and effects of the closure of the private-banking activity overseas.

Table 1-1: Condensed financial information and principal performance indicators of the Bank Hapoalim Group over time (continued)

	December 31				
	2023	2022	2021	2020	2019
	NIS millions				
Main balance sheet data					
Total assets	**686,530**	665,353	638,781	539,602	463,688
Of which: Cash and deposits with banks	**107,730**	133,424	189,283	138,711	88,122
Securities	**127,122**	107,400	71,105	71,885	59,486
Net credit to the public	**407,381**	388,727	352,623	301,828	292,940
Net problematic credit risk*	**7,814**	6,487	7,926	9,754	8,787
Credit to the public not accruing interest income (NPL)*	**4,012**	3,444	2,897	3,208	3,867
Total liabilities	**634,100**	618,850	596,034	499,703	425,467
Of which: Deposits from the public	**554,595**	532,588	525,072	435,217	361,645
Deposits from banks	**9,085**	8,696	11,601	6,591	3,520
Bonds and subordinated notes	**21,800**	26,866	25,582	23,490	26,853
Shareholders' equity	**52,430**	46,502	42,735	39,873	38,181
Additional data					
Share price at end of year (in NIS)	**32.9**	31.7	32.1	22.0	28.7

	For the year ended December 31				
	2023	2022	2021	2020	2019
Total dividend per share (in NIS)**	**1.69**	1.10	1.11	(1)0.54	0.75
Average number of employee positions	**8,602**	8,562	8,694	9,027	9,392

* The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022, prospectively. Within this process, the term "impaired credit" has been eliminated, and non-accruing credit is presented instead. In addition, housing loans past due by 90 days or more are classified as non-accruing credit. If the balance of credit to the public not accruing interest income (NPL) as at December 31, 2021, were restated, the balance would be NIS 3,955 million. If net problematic credit risk were restated, the balance as at December 31, 2021, would be NIS 7,796 million.

** Dividends in respect of the relevant year.

(1) Paid as a dividend in kind, in shares; calculated based on the value of Isracard shares on March 8, 2020 (NIS 10.91).

Key environmental, social, and governance (ESG) indicators

Bank Hapoalim is an integral part of the economy and society of Israel, and, as a large financial organization, has a significant impact on the environment and community within which it operates. In view of this responsibility, the Bank embeds social, environmental, and governance considerations in its business operations, to benefit all of its stakeholders, in support of the social and economic growth of the State of Israel and the global efforts to cope with climate change.

The Bank reports on these activities annually (since 2008) in its ESG report, written in accordance with the international GRI standard and, since 2021, also according to the SASB standard. In October 2023, the Bank also released its first Task Force on Climate-Related Financial Disclosures (TCFD) Report, describing its activities in this area in 2022. The Bank has been a signatory of the UN Global Compact since 2010.

The following is a summary of the key indicators on environment, social, and governance aspects for activities led by the Bank in 2023. For further information about the full range of activities of the Bank in these areas, see the ESG Report for 2023, which is available on the Bank's website.

Environmental

The bank is committed to helping in coping with the climate crisis and supporting decarbonization of the economy, including through financing of and investment in projects promoting a green environment, management of environmental and climate risks, and reduction of the carbon footprint of the bank's operations. For details regarding environmental and climate risk management, see the section "Review of risks," below, and the ESG Report for 2023.

- **~NIS 28.2 billion –** Balances of credit (balance sheet and off-balance sheet) as at December 31, 2023 (NIS 19.5 billion as at December 31, 2022), granted to projects supporting a green environment in the following areas: renewable energies, green building, clean transportation, energy efficiency, and waste and water treatment.
- **~NIS 539 million –** Total investment facility (including investment commitments) for renewable energy projects as at December 31, 2023 (NIS 513 million as at December 31, 2022), through Poalim Equity.
- **USD 1 billion –** Scope of issuance of the first green bonds in Israel by the Bank (in 2021). The full allocation of financing for green projects within the bond framework was completed in June 2023. The final impact report has been posted on the Bank's website.
- **30 tCO_2e –** Emissions intensity per million NIS of credit in 2022 (compared with 35 tCO_2e in 2021). The measurement was performed with regard to the credit portfolio of the Corporate Banking Division at the Bank. For more extensive information, see the Bank's TCFD Report for 2022.
- **17.5% –** Rate of reduction of the carbon footprint of the operational activities of the Bank in comparison to 2020; 4.6% reduction in 2023 (compared with 2022). For more extensive information, see the Bank's ESG Report for 2023.

Social

The Bank aspires to create a beneficial impact on the society and community of Israel. Within this ambition, the Bank promotes the growth of small businesses through financing solutions, professional guidance, and supportive tools; cultivates an empowering work environment; and promotes accessibility, diverse employment, and financial empowerment for the general public. In times of emergency and war, the Bank's commitment to values-driven and responsible action is intensified; accordingly, this year the Bank stepped up its activities in support of society and the community and its efforts to provide relief to customers coping with the impacts of the war.

- **NIS 470 million –** Total benefits and reliefs (assuming full utilization) offered by the Bank to its customers to help cope with the impacts of the war (not including the effects of the update of the Bank of Israel outline announced on March 4, 2024).
- **NIS 750 million –** Scope of the fund established by the Bank to grant bridge loans for up to three months free of interest and fees, to help its customers cope with the impacts of the war.
- **NIS 32.7 billion –** Total balance of credit for the small-business segment as at December 31, 2023 (NIS 35.0 billion at the end of 2022).
- **Top 10 –** The Bank placed ninth in the BDI survey ranking the 100 best workplaces (in a survey published in May 2023).
- **13.6%** of the employees of the Bank belong to population groups underrepresented in the job market (12.3% in 2022).
- **~NIS 45.8 million –** Community investments of the Bank in 2023 (including the Financial Growth Center), of which NIS 10 million channeled to immediate community aid at the outbreak of the war (NIS 37.7 million in 2022).
- **NIS 100 million** to found the Poalim Rebuild Fund – An aid fund dedicated to strengthening and developing personal, community, and financial resilience for people, communities, and businesses in the Western Negev region.
- **69,000 volunteer hours** invested in activities organized by Poalim Volunteers (including volunteering at the outbreak of the Swords of Iron War).
- **800,000 people** participated in activities of the Financial Growth Center in 2023; the center offers in-person lectures as well as a website providing tools and knowledge, and this year also operated emergency hotlines to respond to questions.

Governance

The Bank operates according to the principles of corporate governance, as reflected in the legislative and regulatory environment, with strict adherence to fairness and transparency towards stakeholders. Concurrently, the conduct of the Bank is guided by the cultural values and principles grounded in its code of ethics and vision.

- **40% –** Percentage of women on the Board of Directors (similar to 2022).
- **56.8%** women in the overall management tier of the Bank (56% in 2022); 39% women in senior management (38% in 2022).
- **18.6%** improvement in the index of employee connectedness to the Bank (relative to the organizational change index survey for 2022).
- **47.7 –** Score on the NPS index, which measures customers' willingness to recommend the Bank (in surveys adjacent to service), reflecting a 28% improvement in 2023 (compared with a score of 37.27 in 2022).

Within its ambition to continue to create social and environmental impacts in the coming years, the Bank has set ESG goals for 2030.

On the environmental level, the Bank aspires to increase financing and investments in projects promoting a green environment, while stopping financing and investments in new coal and oil exploration and production projects. In addition, the Bank will manage environmental and climate risks in its business operations, guide its customers through the transition to decarbonization, and continue to work to reduce its carbon footprint.

On the social level, the Bank aspires to promote gender equality by increasing the representation of women in its senior management, and to promote diverse employment by increasing the diversity of its workforce.

1.4. Condensed description of the principal risks to which the Bank is exposed

The Bank performs comprehensive examinations to assess the risks to which it is exposed and estimates the materiality of such risks. Within the ICAAP (Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, compliance risk, and model risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk (which may materialize via credit risks, investment risks, market risks, and more), and environmental risk.

The Swords of Iron War broke out on October 7, 2023. For additional information about risks in general and the potential effects of the war, see the section "Top and emerging risks," the section "Impacts of the Swords of Iron War," and the section "Review of risks," below; and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2023.

1.5. Objectives and business strategy

The Board of Management and the Board of Directors of the Bank approved a multi-annual strategic plan for 2023-2026 at the end of 2022, under the heading Poalim 2026, aimed at reinforcing the position of Bank Hapoalim as a leading bank in Israel. The principles of the plan support continued responsible growth, preservation of the Bank's leadership, and a leap forward in customer service. The plan is focused on performance, value for customers, optimal utilization of infrastructures and resources, and development of differentiating and influential innovation. In 2023, the Bank worked to implement the strategic focus areas established for this year.

The Poalim 2026 strategic plan builds on the successful implementation of the Bank's growth strategy for its core activity in 2021-2022, reflected in material improvement in its business results and momentum.

The strategic plan of the Bank was formulated as a reflection of the vision it has adopted – "Committed to growth through impactful, innovative, fair banking for our customers."

The vision of the Bank is aligned with the ESG values it has promoted over the years, grounded in responsibility and recognition of the importance of impactful banking to society, the community, and the environment (for further information, see the section "Key environmental, social, and governance (ESG) indicators," above).

Since October 7, 2023, and at the date of the report, Israel is at war. At this stage, it is difficult to estimate the development and duration of the war, and accordingly to estimate its impacts on the business environment. The potential for future changes in the working assumptions of the strategic plan is examined periodically. Based on this examination, the principles and objectives of the strategic plan have remained in effect.

1.5.1. The process of formulating the strategic plan – Poalim 2026

Poalim 2026 is a multi-annual strategic plan that establishes the strategic pillars and the vectors for change needed to attain sustainable growth, and encompasses a range of business initiatives in all areas of activity of the Bank. Attainment of the strategic goals through the focal elements of the plan will provide a foundation for continued responsible growth, by means including an emphasis on leading customer segments of the Bank in retail banking, corporate banking, and the capital market, with a significant improvement in customer service.

The process of originating and formulating the strategic plan and establishing objectives for Poalim 2026 was conducted over the course of 2022, in partnership with a leading international consulting firm, and is the outcome of intensive cross-division work. In 2023, the Poalim 2026 plan was examined in view of the changes in the business environment and the emphases for 2024, and the actions to be taken going forward were fine-tuned. This process encompassed examination of the changes and trends in the global and Israeli economy, regulatory processes, and trends in the competitive environment. Due attention was also accorded to changes in consumer behavior trends with regard to the consumption of financial services through direct channels. Possible future scenarios for the banking industry, as published by the Basel Committee on Banking in February 2018, which are still relevant today were also taken into consideration. In retail banking (private customers and small businesses), the "distributed bank" scenario, in which financial services are distributed among banks and technological players, is likely to materialize gradually, over a period of years. In commercial and corporate banking, the "better bank" scenario is likely to materialize, in view of the comprehensive process of modernization, automation, and digitization currently underway at traditional banks.

The business strategy of the Bank is based on several key axes:

a. Strengthening the leadership of the Bank in core banking

The strategic plan sets the goal of leveraging and strengthening the leadership of the Bank, as a universal bank in Israel, in core banking products for retail and business customers and in the capital market. For retail customers, the plan emphasizes continued improvement of service and channels for communication with customers, based on a digital-first approach and on a focus on leading customer segments, including private-banking customers and small businesses. The Bank will also work to continue to leverage the reach of its branch network and adapt it operationally to focus on advisory services and sales of complex products and services. Within this effort, the Bank is considering renewal of its operational model in retail banking; the changes will enable all customers to benefit from full digital availability and a continuous service experience across channels (digital, written communications, telephone service, and in-person service). For business customers, the Bank is continuing to strengthen its leadership in the areas of infrastructures, syndication, real estate, and capital-market activity, and continuing to strengthen its growth in the high-technology sector and promote ESG products.

For all customers, to strengthen its leadership, the Bank will, among other means, leverage its broad customer base for advanced data applications, proactive analysis, and examination of the integration of GenAI with customer journeys and operational processes, in order to improve service and shorten SLA response times. The Bank will also work to continue to transform into a data-driven organization, deriving insights and applying advanced information processing.

b. Optimizing the use of resources and enhancing productivity

Optimizing the use of resources and enhancing productivity are another element of the plan designed to confer a competitive advantage on the Bank. This element concerns a number of content areas, including financial resources, technologies, and human capital, as well as streamlining of business and operational processes.

In the field of financial resources, the Bank has continued enterprise-wide processes pertaining to efficient asset and liability management (ALM) and further improvement of efficiency in the consumption of risk-weighted assets (RWA) through the implementation and use of global best practices and the application of in-depth processes engaging all divisions of the Bank.

In the area of technological resources, the Bank is investing material resources in the project of modernizing its core infrastructure systems, a key part of transforming into an advanced and innovative organization. The Bank is dedicating resources to the development of technology with value for its customers, while continually investing in supporting infrastructures, digitization, and automation, and while maintaining stability and business continuity.

The Bank is also working to simplify and streamline internal process-related interactions within the organization. The Banking Services Division has been established, as part of this effort, to oversee process-related and technological expertise and innovation in banking services for customers. The division worked in 2023, and continually acts, to formulate innovative processes for the improvement of internal service and operations at the Bank, while instilling an organizational culture of the adoption of change and continued investment in human capital, and leveraging and strengthening capabilities.

As an additional growth driver, the Bank is accelerating the implementation of Agile methodologies and the operation of human resources based on the "tribes" model. This process, in which the Bank is a leader in the business arena, will lead to the close integration of technological and business functions at the Bank, to improve and shorten time to market and delivery, as a competitive advantage, allowing rapid launch of products, diversified services, and development of innovative value offers for Bank customers, on a par with leading global banks.

Accordingly, at the beginning of this year the Board of Directors of the Bank approved the formation of three additional "tribes" applying the Agile methodology. The Agile work method is part of the objectives of the Bank's strategic plan, and provides a competitive advantage in terms of output.

c. Differentiating and influential innovation

In support of its strategy, the Bank will continue to identify opportunities and develop innovative initiatives supporting its business objectives and focus on customers. The Bank will work to formulate unique, differentiating value offers in the industry, through realizing the potential of open banking to build the banking of the future and by finding and integrating third-party technologies and solutions from the Israeli and global ecosystem, to streamline operational processes and improve customer service, among other goals. The Bit app, which currently has approximately 3 million active users, of which about two-thirds generally conduct their main activities at other banks, continues to serve as the basis for development of new banking products; the Bank is continuing to expand the areas of activity of Bit in payments, and formulate unique innovative value offers.

1.5.2. Organizational changes

During 2023, the Board of Directors of the Bank approved several organizational changes aimed at optimally focusing and realizing the advantages and assets of the Bank, while enhancing its growth capabilities, accelerating the strategic plan, and maximizing value.

Accordingly, as noted, the establishment of business-technology "tribes" within the Agile work method was accelerated, and changes were made to focus and strengthen the Bank's digital channels and capabilities, including in the areas of products and supporting systems.

1.5.3. Forward-looking information

The Bank's approved strategy and work plans and the working assumptions on which they are based refer to the Bank's future activities; therefore, the information in this section with regard to the Bank's action plans and intentions is "forward-looking information."

The strategic plan sets ambitious goals for each of the Bank's activities, yet in any planning, especially in planning several years ahead, and all the more so during periods of changes and turmoil in the global economy and in the world financial system, a considerable degree of uncertainty must be taken into consideration. Various diverse factors may prevent the assumptions on which the strategic plan is based from materializing, or may prevent them from materializing in full, and may prevent the realization or full realization of future plans. Notable such factors are the business environment in Israel and globally, as well as macroeconomic conditions. Special importance should be accorded to the changing interest rates, worldwide and in Israel; the change in inflation; the condition of the global economy; the economic, political, and security situation in Israel and in the region, as noted; and regulatory changes and the consequent restrictions applicable to the Bank.

2. Explanation and analysis of results and business position

2.1. Trends, events, developments, and material changes

2.1.1. Economic and financial review

Economic activity in Israel

The economy grew at a rate of 2.0% in 2023, thanks to average growth of 2.4% in the first three quarters (in annualized terms). The Swords of Iron War began near the beginning of the fourth quarter; initial estimates indicate that GDP in that quarter contracted sharply, at an annualized rate of 19.4%. In its early stages, the war caused widespread economic paralysis in almost every sector of the economy. However, as the war continued, economic routines began to form in most sectors. There are still several economic sectors in which normal activity has not resumed, primarily construction, which is affected by the lack of Palestinian workers entering Israel, and foreign tourism, which is currently almost nonexistent. Private consumption has gradually returned to pre-war levels thanks to government support for households and businesses hurt by the war. Redirection of consumption from outside Israel to the domestic market has also been apparent, due to the decrease in overseas travel. As of February 2024, the intensity of the fighting has lessened and economic activity seems to be recovering. However, as noted, several economic sectors have not resumed normal activity, and approximately one percent of the nation's population – residents of the areas in proximity to the border with Lebanon or Gaza – still have not returned to their homes. This situation is also reflected in labor-market data. While there was almost no change in the official unemployment rate during the period, many workers were temporarily absent, including, for example, displaced people and those who were employed in economic sectors harmed by the war. The percentage of these workers reached 3% of the workforce in December, and decreased to 1.4% of the workforce in January 2024. This population is mostly receiving some form of compensation from the government, so that its purchasing power has not been substantially impaired. But to the extent that the current situation persists, it may have negative implications for the labor market and, of course, for the state budget.

The war has raised the level of country risk, which has been reflected in an increase in the State of Israel's risk premium in the financial markets, a downgrade of its credit rating by the rating agency Moody's to A2 with a negative rating outlook, a downgrade of the rating outlook by S&P, and placement on a negative watch list by Fitch. The continuation of the war and the worsening of fiscal conditions have increased the risk that the credit rating of the State of Israel may also be downgraded by the two agencies that have not done so yet. The credit rating of the banks has also been downgraded by Moody's, and the rating outlook has been revised to negative. S&P has downgraded its rating outlook to negative, while Fitch has placed the banks on a negative watch list.

Returning the economy to a trajectory of rapid growth and restoring the communities in the Otef Aza (Gaza Envelope) region and in northern Israel that have been harmed are now national challenges. Israel has coped successfully in the past with periods of deterioration in the security situation with fiscal implications. The current background conditions are challenging, as the global economic environment is also less supportive. World interest rates remain high, investments in high-technology companies have receded, and, as noted, the construction industry has not resumed full activity. The defense budget is expected to grow considerably in the coming years, drawing resources from the economy. On the positive side, the economy can be said to have been robust coming into the war, with low debt and a stable financial sector. The Bank estimates that these factors will help the economy navigate the current crisis as well.

Developments in the global economy

2023 began with inflation still high, further monetary tightening expected, war in Ukraine, and rising tensions between the United States and China. In contradiction of prevailing estimates, the global economy surprisingly continued to demonstrate strong growth, though with large variations among regions. Private consumption continued to grow, particularly in the United States, despite the ongoing erosion of households' purchasing power. Overall in 2023, global product grew by approximately 3.1%, according to estimates by the International Monetary Fund. GDP grew by approximately 2.5% in the United States, moderate growth of approximately 0.5% was recorded in the Eurozone, and growth in China accelerated to 5.2%. Labor markets continued to reflect upward pressure on wages and low unemployment, indicating full employment. In August 2023, the credit-rating agency Fitch downgraded the debt rating of the United States government from AAA to AA+. The downgrade was attributed to the ongoing deterioration in the fiscal position of the United States and an expected deceleration of growth.

The increases in the interest rate slowed inflation over the last year; in the twelve months ended in December 2023, inflation reached 3.4% in the United States and 2.9% in the Eurozone. The central banks raised interest rates in the first three quarters of 2023, and maintained the rates unchanged in the last quarter. The Federal Reserve in the United States raised the interest rate to 5.50%, while the European Central Bank raised the interest rate on deposits to 4.0%. The central banks signaled that the process of raising the rates had concluded, and that interest rates would begin to fall during 2024.

The war in Israel has heightened tensions between global blocs. The United States and Britain have attacked targets across Yemen, following attacks on international vessels in the Red Sea by Houthis in Yemen; other areas of the world have also seen escalation of security conditions.

Fiscal and monetary policy

2023 ended with a high budget deficit of 4.2% of GDP, compared with a budget surplus of 0.6% of GDP in the preceding year and the deficit target of 0.9% of GDP. A decrease in tax revenues had emerged early in the year, due to deceleration in activity in tax-intensive economic sectors such as real estate and technology. However, most of the growth in the deficit was caused by the Swords of Iron War. On the expenditure side, defense expenses grew, as well as civilian expenses for assisting displaced people and compensating businesses and households. The drop in tax revenues worsened greatly with the outbreak of the war. The ratio of government debt to GDP, which was 60% at the end of 2022, rose to approximately 62% by the end of 2023. In January, the government approved the budget for 2024, including a steep increase of approximately NIS 55 billion in the budget for the Ministry of Defense. According to the plan, the budget deficit is expected to be 6.6% of GDP. The sharp rise in the deficit places the country's credit rating at risk. Two rating agencies have placed Israel on negative watch lists, and one agency has downgraded its rating outlook to Negative. The defense budget is expected to be considerably higher than before the war, according to all estimates. Financing the increase in defense expenditures and the costs of servicing the larger debt will require an increase in taxes. The government budget includes, for example, a proposal to raise the rate of VAT by one percentage point beginning in 2025, and to impose a special payment on banks for a limited period of approximately two years, in order to achieve the budget objectives.

The Bank of Israel interest rate rose during the first half of the year, from 3.25% to 4.75% in July, and remained at that level until the end of the year. In January 2024, following the decrease in inflation, the Bank of Israel interest rate was lowered to 4.5%. The Bank of Israel maintained the interest rate unchanged in its February 2024 decision. The financial markets are currently pricing in a continued decrease in the interest rate, to approximately 3.75% by the end of 2024. At the outbreak of the war, the Bank of Israel used a series of additional tools, such as selling foreign currency, supplying liquidity to the swap market, and giving monetary loans at a rate lower than the Bank of Israel interest rate, to provide relief in credit terms for small businesses and microbusinesses harmed by the war. The Banking Supervision Department also promoted an outline of reliefs for customers of banks and credit-card companies.

Inflation and exchange rates

The "known" consumer price index rose by 3.3% in 2023. The "in lieu" index rose by 3.0%. Inflation cooled during the year, similar to trends seen in both the United States and Europe. The more moderate inflation is notable in product prices, whereas the increase in prices of services remains relatively high, although it has also cooled. The war seems to have tempered inflation in the fourth quarter, with the notable effect of halting the increase in rent prices. Inflation expectations have not changed materially due to the war, and remain anchored within the inflation target range. Although the rate of inflation reached the target range in Israel at the end of the year, the uncertainty surrounding price stability is high, due to factors including the high budget deficit and the pace of the increase in wages. The consumer price index remained unchanged in January 2024, and the annual rate of inflation decreased to 2.6%.

The shekel depreciated by 3.1% against the US dollar and by 2.0% against the euro in 2023. The volatility of exchange rates was high during the year, influenced by the political uncertainty related to the changes in the judicial system and the outbreak of the war in the fourth quarter. When the war broke out, depreciation pressures mounted, and the Bank of Israel introduced a plan to sell foreign currency, in an amount of up to USD 30 billion of its foreign-currency reserves, with the aim of reining in depreciation and helping to stabilize the markets. Within this plan, the Bank of Israel sold foreign currency in the amount of USD 8.2 billion in October and approximately USD 340 million in November. The Bank of Israel did not continue to sell foreign currency in the remaining part of the year, due to the strengthening of the shekel.

Financial and capital markets

2023 was marked by high volatility in world financial markets, amid continued increases in interest rates and growing concerns over damage to economic activity, but most global stock indices showed steep gains overall for 2023. The S&P 500 index in the United States rose by 24.2%, the NASDAQ index rose by 43.4%, and the Stoxx Europe 50 index rose by 19.2%. Overall in 2023, the TA-125 index rose by 4.1%, a moderate rate relative to sharp gains worldwide, influenced, among other factors, by the war in Israel and by the reform of the judicial system, which heightened uncertainty in 2023. Daily turnovers in equities and convertible instruments decreased to an average of NIS 2.0 billion in 2023, compared with NIS 2.3 billion on average in 2022.

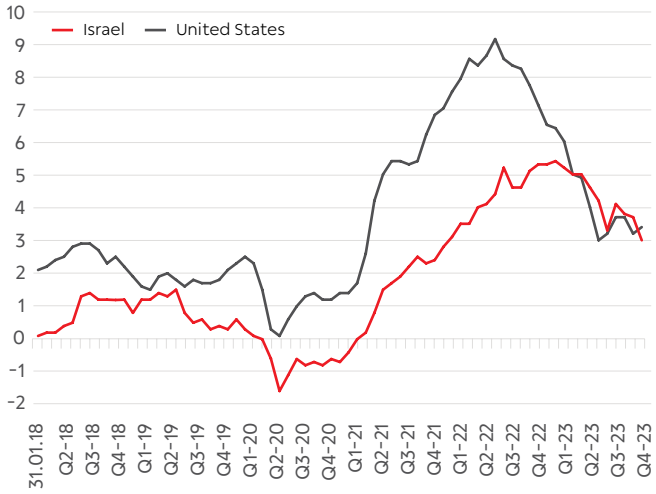
Bond markets showed high volatility that peaked in the last quarter of the year, as long-term bond yields in the United States and in Israel reached a record high of more than ten years, but moderated considerably immediately afterward. The yield of ten-year government bonds in Israel rose from 3.56% at the end of 2022 to 4.80% at the end of October, due to worries over the effects of the war on the deficit in Israel, but moderated to 4.09% at the end of 2023. Ten-year bond yields in the United States rose during the year, from 3.88% to 5.0% in October, due to concerns over a high deficit in the United States, but moderated in December, reaching 3.88% at the end of the year.

The unlinked government bond index rose by 1.3% in 2023, and the linked government bond index fell by 0.4%. The general corporate bond index rose by 6.3%, while yield spreads against government bonds decreased to 2.0% at the end of 2023, versus 2.2% at the end of 2022. Debt funding by non-financial Israeli companies through bonds totaled approximately NIS 48 billion in 2023, similar to the debt funding in 2022.

Diagram 2-1: Government bond yields, the consumer price index, interest rates, and the equity market

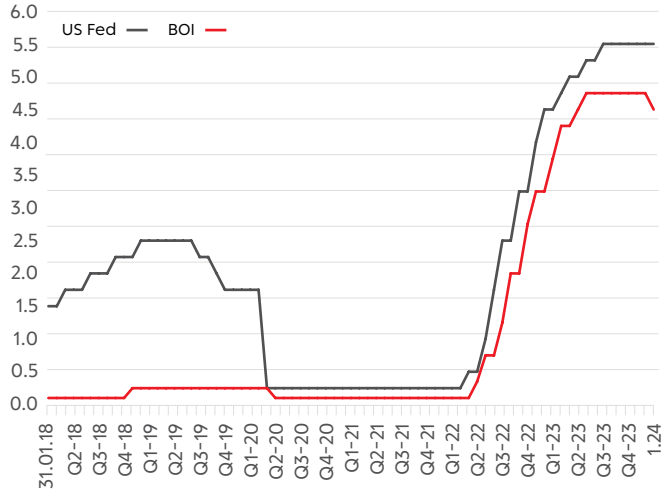
Consumer price index

Rate of monthly change year-on-year, in %



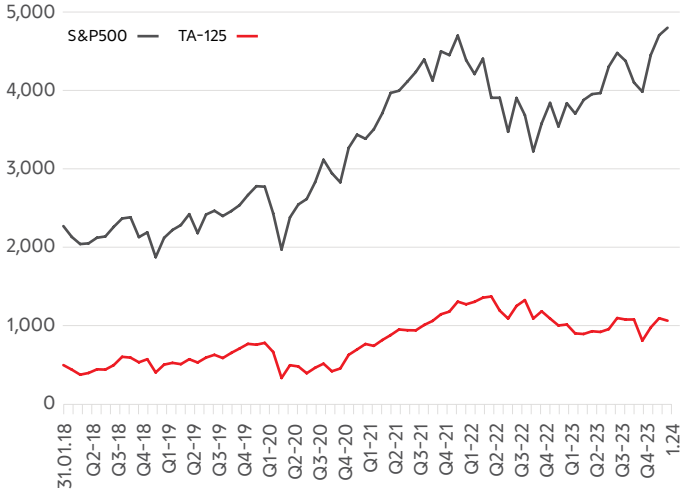
Interest rates

In %, end of period



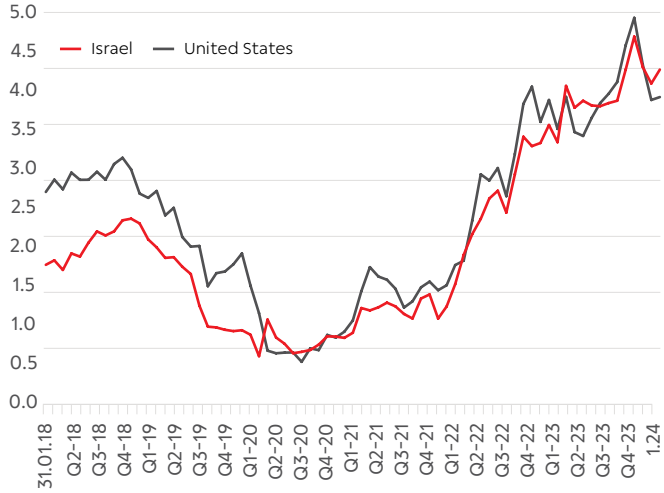
Equity market

In terms of local currency, end of period



10-year government bond yields

In %



2.1.2. Top and emerging risks

Based on the recommendations of the FSB (Financial Stability Board), a top risk is defined as a development currently occurring in the business environment of the Bank that may adversely affect the Bank's results over the course of the coming year. By contrast, with respect to an emerging risk, there is greater uncertainty regarding the timing of materialization of the risk as an occurrence with a material effect on the strategy of the Bank.

The Board of Management and Board of Directors of the Bank have discussed the effect of the top and emerging risks described below on the Bank; from time to time, they examine the need to adjust business strategy to such developments.

- **Macroeconomic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy, significant changes in monetary policies and interest-rate curves, market volatility, changes in prices of financial assets in Israel and worldwide and in real-estate prices, and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. Before the Swords of Iron War, the risks to the economy stemmed from economic deceleration due to global circumstances, combined with a high interest rate environment, which led to a slowdown in the real-estate sector and in other industries; a decrease in investments in the high-technology industry; and the potential impacts of the promotion of changes to the judicial system without a broad consensus, led by the government. The war intensified macroeconomic risks for other reasons, as described below, whereas the factors that had an effect prior to the war are less influential at this stage. The Bank's multi-annual strategic plan includes certain assumptions regarding the macroeconomic environment, taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations.
- **The Swords of Iron War and the economy in Israel:** The war that began on October 7, 2023, caused, among other effects, disruptions of economic activity in Israel in the fourth quarter, due to a large-scale call-up of reserve military forces, partial shutdown of commercial activity, a decrease in consumption, a significant increase in government expenditures and in the fiscal deficit, and a sharp contraction of GDP. While private consumption largely recovered towards the end of the fourth quarter of 2023 and in January-February 2024, and the extent of the reserve military forces has been reduced, some sectors are still experiencing significant damage, particularly the construction industry, which is affected by the absence of Palestinian workers entering Israel, and foreign tourism, which is currently almost nonexistent. In the labor market, while the unemployment rate in December 2023 was low, at 3.1%, many employees are still categorized as temporarily absent from the workforce for economic reasons, including employees who have been displaced from their homes and those who were employed in sectors such as construction and tourism. The war, particularly to the extent that it is prolonged and/or expands to Israel's north, has the potential to exert a negative effect on the labor market, the state budget, the Israeli economy, the customers of the Bank, and the Bank itself.

The war has raised the level of country risk, which has been reflected in an increase in the State of Israel's risk premium in the financial markets, a downgrade of its credit rating by the rating agency Moody's to A2 with a negative rating outlook, a downgrade of the rating outlook by S&P, and placement on a negative watch list by Fitch. The continuation of the war and the worsening of fiscal conditions have increased the risk that the credit rating of the State of Israel may also be downgraded by these two rating agencies. If it occurs, a downgrade of the credit rating of the State of Israel by S&P may lead, as at the report date, to direct impairment of approximately 0.24% and approximately 0.30% of the common equity Tier 1 capital ratio and the total capital ratio of the Bank, respectively. We emphasize that since 2021, the Bank has used S&P as a single rater for country ratings for the purposes of capital-adequacy measurement; accordingly, rating downgrades by other agencies, such as Moody's, that have occurred and/or may occur do not directly affect the capital ratio.

The credit rating of the banks has also been downgraded by Moody's, and the rating outlook has changed to negative. S&P has downgraded its rating outlook, while Fitch has placed the banks on a negative watch list. At this stage, the Bank cannot estimate how the war may develop, its economic and financial effects, or the duration of such effects; accordingly, it is difficult to estimate the future impacts on the condition of the Bank's customers and the Bank itself, and on the various risks. The Bank is working to support its customers and the residents of the Otef Aza region. For details, see the section "Impacts of the Swords of Iron War," below, and the section "Economic and financial review," above.

Global economy: While global inflation has started to fall, the policies of the central banks remain tight. In view of the tight monetary policy, global growth was surprisingly positive, with an emphasis on the United States. Labor markets continue to show surplus demand for employees, upward pressures on wages, and low unemployment rates. The markets are currently pricing in expectations of a gradual decrease in global interest rates in the second half of 2024, while central banks are signaling a slower reduction. The war in Israel and the events in the Middle East in general, which follow the war in Ukraine and the tensions in other world regions, have heightened tensions between blocs and created risks to future growth.

- **Information-security risk and cyber incidents:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. These lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense. Note that the transition of employees to remote work, transition to cloud computing, and increased digitization of the activity of the Bank, including an increase in remote work with customers, concurrently with an increase in threats and attempted attacks on the Bank and its customers, have intensified the risk. During the war, the number of cyber attacks on targets in Israel, including the Bank, has increased, with no damage to its activity to date, and the scope of fraud attempts against the Bank and its customers has grown. The Bank is taking action to mitigate this risk.

- **Regulatory environment in Israel and overseas:** Local and international regulatory reforms have implications for the business of the Bank, in Israel and overseas. In Israel, several regulatory initiatives have been formulated over the last few years, primarily concerned with increasing competition in the banking system in Israel; additional regulatory initiatives are in the process of being generated, some of which concern direct intervention in prices and interest rates in the banking industry. A proposal currently in advanced stages of being formulated is the imposition of a special payment on banks for 2024-2025, due to the war. Other proposals and suggested measures include the announcement by the Competition Authority of the possibility of declaring the banks a concentration group and issuing directives on this matter; the proposal of the Ministry of Finance to create a default deposit; direct legislative intervention in interest rates on deposits, current accounts, and mortgages through private bills; draft legislative amendments proposed by the Israel Securities Authority concerning the exclusion of money-market funds from the Advising Law and creation of money-market funds with similar characteristics to deposits; and an outline for graduated licensing and regulation of non-bank entities. For further details, see the section "Regulatory initiatives" in the Corporate Governance Report. The regulatory initiatives and trends may adversely affect the banking system in general and the Bank in particular. At this stage, it is not possible to estimate the effects of these changes, if they occur, on the Bank. Further, these effects may not be immediate; instead, there may be slower, prolonged effects derived from processes of gradual change in the Bank's environment (customers, market players, etc.), alongside the gradual preparations of the Bank for the necessary adaptation of its operations. Expansions and extensions of the outlines for aiding customers may also affect the results of the Bank.
- **Competitive and strategic risk:** Competition from big tech companies (Apple, Google, Amazon, and others), fintech companies, and digital banks, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the banking industry, including a proposed outline for graduated licensing and regulation of non-bank entities, bank account switching, and open banking, as well as competition in the business sector, may affect the business results of the Bank, including its credit spreads. The Bank has formulated a comprehensive strategic plan for the period through 2026, encompassing, among other matters, action in the areas of the core activities of the Bank, innovation, technology, the structure of operations, and more, in order to respond to such threats, and updates this plan periodically.

- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism (including international sanctions), provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with breaches of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. The Swords of Iron War and the state of emergency are intensifying compliance risks arising from terrorism financing and money laundering. The compliance function at the Bank has adapted its activity to the state of emergency and war, through a series of measures focused, among other matters, on the risks arising from the current situation. The scope of international sanctions has been expanded, including in relation to the Russia-Ukraine war, and subsequently the Swords of Iron War. International sanctions have also been imposed on Israelis. The compliance system has adapted its activity through a series of measures, including monitoring and tracking aimed at reducing compliance risks arising from failure to apply the international sanctions.
- **Environmental risk:** Around the world, the understanding has grown in recent years that the materialization of environmental risks and climate risks may cause harm to the economy, and, in extreme cases, may cause significant damage to banks and to the financial system, as a result of the materialization of financial and non-financial risks in the long term. These effects may also be expressed within other risks to which the banking corporation is exposed in the course of its activity, such as credit risk (through the effect on the financial resilience of borrowers and the value of collateral), market and investment risk, operational risk, legal risk, reputational risk, and more. These risks, particularly climate risks and the impact of processes of transition to a low greenhouse-gas emissions economy, have unique characteristics of uncertainty. At this stage, it is too early to estimate the potential long-term effects of these changes on the Bank.

For further details regarding the impacts of the Swords of Iron War, see the section below.

For details regarding legal proceedings, see Note 25 to the Financial Statements.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see the Corporate Governance Report.

2.1.3. Impacts of the Swords of Iron War

On October 7, 2023, the organization Hamas mounted a lethal terrorist attack on the State of Israel, consisting of rocket launches, a land invasion of military bases and civilian communities, and the murder and abduction of civilians and soldiers. The State of Israel declared a state of war and an extensive call-up of reserve military forces, which at the report date has continued, on a reduced scale relative to the beginning of the war. At the date of the report, the military is fighting within the Gaza Strip; over 100 hostages are being held by Hamas; exchanges of fire are occurring in northern Israel, with no land campaign; and in the Red Sea, Houthis are impairing the freedom of navigation and attempting to attack southern Israel. With regard to economic conditions, in the third quarter, prior to the Swords of Iron War, a certain degree of deceleration of economic growth was apparent. Inflation and rising interest rates had impaired households' purchasing power, although the labor market remained tight. The real-estate sector saw a low quantity of transactions, an increase in the inventory of unsold homes, and slight price declines. The war disrupted economic activity in Israel in the fourth quarter, due to a large-scale call-up of reserve military forces, partial shutdown of commercial activity, a decrease in consumption, and a significant increase in government expenditures and in the fiscal deficit. GDP contracted at a sharp annualized rate of 19.4% in the fourth quarter. The business product declined at an annualized rate of 32.3%. While private consumption largely recovered towards the end of the fourth quarter of 2023 and in January-February 2024, and the extent of the reserve military forces has been reduced, some sectors are still experiencing significant damage, particularly the construction industry, which is affected by the absence of Palestinian workers entering Israel, and foreign tourism, which is currently almost nonexistent. In the labor market, while the unemployment rate in December was low, at 3.1%, many employees are still categorized as temporarily absent from the workforce for economic reasons, including employees who have been displaced from their homes and those who were employed in sectors such as construction and tourism. This population is mostly receiving some form of compensation from the government, so that its purchasing power has not been substantially impaired. But to the extent that the current situation persists, it may have negative implications for the labor market and, of course, for the state budget.

The war, particularly to the extent that it is prolonged and/or expands to additional fronts, has the potential to exert a negative effect on the Israeli economy, the customers of the Bank, and the Bank itself. Potential risks include a possible decline in private consumption; a decrease in investments in the economy, including foreign investments and investments in the high-technology industry; a decrease in GDP; a significant budget deficit; downgrades of the credit rating of the state by additional agencies; an increase in the risk premium of the state; a decrease in revenues in some economic sectors; damage to the tourism and construction industries; a decrease in real-estate prices; an increase in unemployment; damage to businesses; an increase in allowances for credit losses, as a result of these factors; market shocks, including depreciation; capital-market declines; changes in yield curves and in the interest rate of the central bank, affecting profitability; and more. The government has formulated aid programs for the business sector, for households in conflict zones, and for reserve soldiers; however, these programs do not cover all of those harmed, on the one hand, and lead to an increase in the deficit, on the other hand. The Israeli economy has accumulated financial robustness over the years, as demonstrated by parameters such as its low public debt, the surplus in the current account of the balance of payments, and high foreign-currency reserves, which are supporting the national economy at this time. The Bank's profitability level and its capital, liquidity, and leverage ratios were robust at the outbreak of the war, enabling it to withstand shocks, and the Bank continues to maintain these ratios at appropriate levels in view of this situation. At this stage, the Bank cannot estimate how the war may develop, and all the more so its economic and financial effects, or the duration of such effects; accordingly, it is difficult to estimate the future impacts on the condition of the Bank's customers and on the Bank itself, while the government's support, the duration and future extent of which are unknown, also has potential economic effects.

To help customers cope with the impacts of the war, when the war began the Bank announced a series of significant benefits, differentiating customers directly affected by the war from the rest of the population. These measures include benefits in line with the outline issued by the Banking Supervision Department, for a period of three months (which has been extended by an additional three months, to the first quarter of 2024), as well as additional benefits beyond the outline. In the area of mortgages, the Bank has granted full exemption from mortgage payments for three months for customers in the Otef Aza region (in a range of 0-7 km from the border). This benefit is in addition to the option for other directly affected customers to suspend mortgage payments for three months at no cost, according to the outline of the Bank of Israel. The Bank has also established a credit fund in the amount of NIS 750 million for interest-free bridge loans, and is granting reduced-interest loans, three-month loan payment deferrals at no added cost for eligible private customers and businesses, exemptions from current-account fees and interest on negative balances for eligible customers, and more. For additional details regarding benefits granted by the Bank to its customers, see the section "Operating segments based on the management approach" in the Corporate Governance Report. The estimated total amount of the aforesaid benefits, at this stage, will be affected by the rate of their utilization by customers, and may reach approximately NIS 470 million with full utilization of the benefits (not including the effects of the update of the Bank of Israel outline announced on March 4, 2024). For details of the utilization of the benefits to date, see the table below. The benefits are recorded to profit and loss when exercised by customers, as detailed in the table below. The Bank is continuing to examine its policy regarding the benefits, and may extend them, taking into consideration the continuation and/or expansion of the war and/or regulatory outlines. The reliefs for customers, particularly if they are extended, may affect the future profitability of the Bank.

The Bank has decided to grant aid in the amount of up to NIS 100 million, through the foundation of the Poalim Rebuild Fund, to help restore the community life of the families and businesses of the Otef Aza region. The fund is headed by a public committee, which establishes the fund's policy, makes decisions regarding project financing, and monitors its ongoing activities. The public committee is headed by Major General (Res.) Amram Mitzna; members include other public figures and representatives of the management of the Bank. The fund will work to restore the community life of the families and businesses of the Western Negev region, with the aim of rebuilding the resilience and unique community life of the region in the areas of informal education, emotional and community resilience, and economic resilience. Grants are planned to be distributed within three years of the foundation of the fund, with costs to be recorded to profit and loss over this period, at the pace exercised. The Bank is also working to support the needs of the society and community of Israel during the war through monetary donations, assistance for businesses and households under the auspices of the Financial Growth Center, and volunteering by Bank employees. As early as October 8, 2023, the Bank set up an emergency network and provided emergency aid at a volume of approximately NIS 10 million for immediate needs in various areas, including donations to rescue organizations, hospitals, non-profit organizations providing mental-health support, the Hostages and Missing Families Forum, and aid for displaced families. The Bank also acted to raise donations through the Bit app, where a sum of approximately NIS 14 million has been collected to date for similar purposes. All of this is in addition to the tens of millions of shekels in community aid routinely given by the Bank every year through Poalim Community, which has worked for more than forty years to reduce social and economic inequalities and create equal opportunities in Israel.

In terms of credit risk, the Bank is regularly examining its exposure to the regions most affected by the fighting, the developments in past-due loan payments of private and business customers, and its exposure to economic industries and sectors expected to be significantly hurt. These are primarily sectors related to tourism, construction and real estate, high technology, finance, and agriculture, most of which had already been affected by market conditions prior to the outbreak of the war. The construction industry is expected to continue to be influenced by an additional decline in demand and difficulty in making progress on projects. As noted, the Bank cannot estimate the duration or developments of the war, and correspondingly the extent of damage in each of these areas, including in connection with the payment deferrals. The impacts of the developments in economic conditions, as estimated by the Bank at this time, were reflected in the calculation of the collective allowance, and led to an increase in the provision for credit losses. The total provision for credit losses in the fourth quarter was NIS 453 million, further to a provision for credit losses in the amount of NIS 662 million in the third quarter. Most of the provisions are in respect of the increase in the collective allowance, which mainly resulted from the effect of macroeconomic forecasts, particularly the predicted effects of the Swords of Iron War. For further details and for comments on the different scenarios for the development of the allowance for credit losses, see the section "Credit risk," below.

In terms of market risks, moderate depreciation occurred at the outbreak of the war, which later receded, amid the intervention of the Bank of Israel in the foreign-currency market, along with declines on the stock market (which has since recovered), high volatility in the interest-rate curve, a reduction of the Bank of Israel interest rate by 0.25%, and an increase in CDS debt insurance prices of the State of Israel. Market shocks, if they occur, including currency depreciation, capital-market declines, and changes in yield curves and in the interest rate of the Bank of Israel, have the potential to negatively affect capital ratios, the profitability of the Bank, and fair value, as detailed in the section "Market risks," below. For the effect of the decreases in the interest rate on the profitability of the Bank, see the section "Market risk," below.

The credit rating agencies have reacted to the developments: Moody's placed Israel on a negative watch list, and later downgraded the state's credit rating; Fitch and S&P placed the state on a negative watch list and revised the state's debt rating outlook to negative, respectively. Thus, there is a risk that the credit rating of the state may be downgraded by these two rating agencies in the near future. Ratings of Israeli banks, including the Bank, are influenced by the rating of the State of Israel; accordingly, some of the rating agencies have accorded similar status to the banks, and Moody's has downgraded its credit rating for Israeli banks. If it occurs, a downgrade of the credit rating of the State of Israel by S&P may lead, as at the report date, to direct impairment of approximately 0.24% and approximately 0.30% of the common equity Tier 1 capital ratio and the total capital ratio of the Bank, respectively. There would also be likely indirect negative effects of a rating downgrade, including further devaluation; possible damage to liquidity in foreign currency; an increase in the yield curves of Israeli government bonds, and a subsequent increase in the Bank's funding costs; possible reduction of the activity of foreign financial institutions with Israeli banks; and negative financial impacts on the economy, the customers of the Bank, and the Bank itself.

With regard to the operations of the Bank, the Bank activated its business continuity plans as early as Saturday, the first day of the war, including through meetings of emergency teams; the transition of headquarters employees to remote work; closure of a few branches in conflict zones, and redirection of customers and employees to remote activity or other locations; adaptations of activity at other branches; operation of mobile branches; and continuous guidance to strengthen preparedness. At this time, the effect on the operational activity of the Bank is minor. The Bank is continually examining the situation and adapting its activity. The compliance system has adapted its activity to the conditions of the war and emergency, through a series of measures focused on compliance risks heightened by the state of war.

In addition to the activity of the regular financial committees at the Bank, the Bank is frequently convening a management committee dedicated to monitoring the financial situation and handling the financial crisis, as it develops. This committee, as well as the Board of Management and the Board of Management Committee on Risk Management and Compliance, regularly reviews a benchmark scenario and various stress scenarios for the development of the crisis and its financial effects on the economy, the customers of the Bank, and the Bank, and the effects on credit risk, counterparty risk, liquidity, the proprietary portfolio, the dealing room, interest-rate exposures, and more. The committee reports to the Board of Directors and to the Risk Management Committee of the Board of Directors.

As described above, the Bank is allowing customers to defer loan payments, in accordance with the outline of the Bank of Israel or other outlines at the initiative of the Bank, and supporting its customers through a range of benefits. Details regarding activities to benefit borrowers as part of the efforts to cope with the war follow (for details regarding the accounting treatment of the benefits for customers, see Note 1.D.1 to the Financial Statements).

Table 2-1: Details regarding activities to benefit borrowers as part of the effort to cope with the war

	For the year ended December 31, 2023				
	Housing	Private individuals – other	Small businesses and microbusinesses	Mid-sized businesses	Total
	NIS millions				
Effect of benefits granted by the Bank in coping with the war*					
Modifications of terms of debts*	**46**	**17**	**21**	**-**	**84**
Interest-free or reduced-interest loans	**-**	**8**	**28**	**-**	**36**
Waiver of fees	**-**	**24**	**6**	**-**	**30**
Other benefits	**-**	**-**	**9**	**-**	**9**
Total benefits utilized up to December 31, 2023	**46**	**49**	**64**	**-**	**159**
Benefits granted by the Bank after the balance sheet date**					
Benefits utilized after the balance sheet date	**4**	**35**	**19**	**1**	**59**
Unutilized benefits	**130**	**54**	**68**	**-**	**252**
Total benefits granted by the Bank after the balance sheet date	**134**	**89**	**87**	**1**	**311**
Total benefits assuming full utilization	**180**	**138**	**151**	**1**	**470**

* Including forgiveness of loan payments, deferral of payments at 0% interest, and exemption from interest on negative balances in current accounts.

** Benefits granted in 2024 up to near the date of publication. The benefits utilized will be recorded to profit and loss during 2024. Does not include the extension and expansion of the Bank of Israel outline announced on March 4, 2024.

Table 2-1: Details regarding activities to benefit borrowers as part of the effort to cope with the war (continued)

	December 31, 2023					
	Housing	Private individuals – other	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Total
	NIS millions					
Additional information regarding activities to benefit borrowers in coping with the war						
Balance of credit with modification of terms of debts*[(1)]	**12,296**	**2,388**	**5,581**	**2,388**	**3,601**	**26,254**
Amount of deferred payments**	**215**	**220**	**678**	**170**	**205**	**1,488**
Average payment deferral in months**	**3**	**3**	**3**	**3**	**3**	**-**
(1) Of which: problematic credit	**41**	**46**	**135**	**47**	**108**	**377**
(1) Of which: credit that has undergone troubled debt restructuring	**-**	**42**	**41**	**12**	**-**	**95**
Balance of interest-free or reduced-interest loans granted	**-**	**150**	**745**	**-**	**-**	**895**
Average interest rate	**-**	**5.59**	**5.36**	**-**	**-**	**5.40**
Average prime interest rate during the relevant period	**-**	**6.25**	**6.25**	**-**	**-**	**6.25**
Loans granted within state-backed funds						
Credit balance	**-**	**-**	**481**	**32**	**1**	**514**
Average interest rate	**-**	**-**	**6.58**	**7.47**	**6.25**	**6.63**
Of which:						
Balance of credit granted with financing by the Bank of Israel	**-**	**-**	**358**	**-**	**-**	**358**
Average interest rate	**-**	**-**	**6.25**	**-**	**-**	**6.25**
Balance of loans granted with financing by the Bank of Israel (including through state-backed funds)						
Credit balance	**-**	**-**	**772**	**-**	**-**	**772**
Average interest rate	**-**	**-**	**6.20**	**-**	**-**	**6.20**

* Including forgiveness of loan payments, deferral of payments at 0% interest, and exemption from interest on negative balances in current accounts.

** Deferral of payments, including extension of the repayment period. Deferral of payments does not include deferrals in which an entitlement was exercised to which the borrower is entitled under any law.

The option to defer loan payments in accordance with the outline of the Bank of Israel or outlines introduced by the Bank continued to be offered during the first quarter of 2024. As at January 31, 2024, the balance of credit with modifications of the terms of the debts totaled approximately NIS 28,264 million, and the amount of deferred payments was approximately NIS 1,689 million. In addition, the balance of credit within state-backed funds totaled approximately NIS 909 million, of which approximately NIS 595 million is the balance of credit granted with financing by the Bank of Israel.

The balance of loans granted with financing by the Bank of Israel (including through state-backed funds) totaled approximately NIS 1,931 million.

On March 4, 2024, the Banking Supervision Department announced an extension and expansion of the outline of reliefs for coping with the impacts of the war, for a period of three additional months, beginning April 1, 2024. The Bank is examining the implications of the aforesaid extension and expansion.

2.1.4. External auditors

Ziv Haft (BDO), CPA (Isr.) and Somekh Chaikin (KPMG), CPA (Isr.) serve as the joint auditors of the Bank.

Occasionally, the external auditor finds it appropriate to diverge from the uniform format of the opinion or review report by including an emphasis-of-matter paragraph, directing attention to a particular matter that has a significant effect on the financial statements and is included in a note to the financial statements.

In this regard, the external auditors have emphasized the section in Note 25.D.b to the Financial Statements concerning exposure to class-action suits filed against the Bank Group.

2.2. Material developments in income, expenses, and other comprehensive income

Net profit of the Bank Group attributed to shareholders of the Bank totaled NIS 7,360 million in 2023, compared with profit in the amount of NIS 6,532 million in 2022. The increase in profit mainly resulted from an increase of approximately 19.3% in the total income of the Bank, as detailed below, partly offset by an increase in the provision for credit losses.

Net return on shareholders' equity was 15.0% in 2023, compared with 14.8% in 2022.

Net profit of the Bank Group attributed to shareholders of the Bank totaled NIS 1,761 million in the fourth quarter of 2023, compared with profit in the amount of NIS 1,669 million in the third quarter of 2023.

Net return on equity attributed to shareholders of the Bank was 14.0% in the fourth quarter of 2023, compared with 13.4% in the third quarter of 2023.

With regard to the effect of the interest-rate environment, see Section 2.2.1, "Development of income and expenses," below.

Table 2-2: Condensed statement of profit and loss

	For the year ended		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
Interest income	**32,971**	19,220	71.5%
Interest expenses	**(16,886)**	(5,753)	193.5%
Net interest income	**16,085**	13,467	19.4%
Non-interest financing income	**1,267**	581	118.1%
Net financing profit*	**17,352**	14,048	23.5%
Provision (income) for credit losses	**1,879**	(34)	
Net financing profit after provision (income) for credit losses	**15,473**	14,082	9.9%
Fees and other income*	**4,030**	3,872	4.1%
Operating and other expenses	**8,231**	7,972	3.2%
Profit before taxes	**11,272**	9,982	12.9%
Provision for taxes on profit	**3,930**	3,548	10.8%
Profit after taxes	**7,342**	6,434	14.1%
The Bank's share in profits of equity-basis investees, after taxes	**18**	99	(81.8%)
Net profit:			
Before attribution to non-controlling interests	**7,360**	6,533	12.7%
Loss (profit) attributed to non-controlling interests	**-**	(1)	
Attributed to shareholders of the Bank	**7,360**	6,532	12.7%
Return of net profit	**15.0%**	14.8%	1.8%

* The profit and loss items above are presented in a different format than in the statement of profit and loss, in order to allow better analysis of the financial results. This change is expressed in the reclassification of non-interest financing income from the item of "non-interest income (expenses)" to the item of "net financing profit."

2.2.1. Development of income and expenses

Effect of the interest-rate environment

The Bank of Israel interest rate rose at a relatively very high and rapid rate in 2022-2023, from 0.1% to 4.75% in a fairly brief period. In view of the rising interest rate and inflation and in response to its customers' needs, in early 2023 the Bank introduced reliefs in the area of mortgages – spreading of the Prime component over a longer period (with no change in the terms of the loan) and freezing the increase in the interest rate at the rate determined in January 2023, for one year, for the category of customers who meet the criteria established (which, in the eyes of the Bank, represents the customers significantly affected by the rise in interest rates). In July 2023, the Bank announced a series of significant benefits for its customers in the areas of current accounts, deposits, and mortgages:

- Substantial enhancement of the mechanism for offsetting positive balances against negative balances in current accounts.
- Reduced interest rates on negative balances in higher brackets, so that they are equal to the first bracket.
- Proactive encouragement for households to redirect significant amounts from positive balances in current accounts to more profitable channels for them.
- Improvement of interest rates on deposits for retail customers by equalizing interest rates for retail-banking customers with "small" deposits and "large" deposits.
- Absorption of further increases in interest rates on mortgage payments until the end of 2023.
- The option to reschedule existing loans over longer periods.

For further details, see the Corporate Governance Report, in the "Private Customer Segment" section and the "Housing Loans" section.

The rapid increase in the interest rate led to an increase in spreads on deposits and growth in net interest income, financing profit, and spread from regular financing activity, as detailed below. Concurrently, due to the rising interest rate, a trend of transition to deposits in interest-bearing deposits as a substitute for non-interest bearing positive balances in current accounts began in 2022 and continued in 2023. This trend tempered the growth in spreads on deposits. It is further noted in this context that the interchange between the risk-free interest rate and the interest rate for customers is influenced by the intensity of the interest-rate increase/decrease process, the pace of the change, and the transition to interest-bearing deposits, as noted above. Early in the interest-rate increase process, spreads on deposits and the spread from regular financing activity rose significantly, but later in the process the pace of the increase in these spreads was more moderate, despite the continued increase in the interest rate (as described in Diagram 2-2 and in the analysis of interest income and expenses below). Profit from regular financing activity (excluding the effect of the CPI) began to trend downward in the second half of 2023. This decrease, with the added effects of the CPI, led to a decrease in the margin from regular financing activity, from a peak level of 2.80% in the second quarter of 2023.

For further information regarding the effect of deposit spreads on net interest income at the Bank as a whole, see Table 2-4 below; for details regarding deposit spreads by operating segment, see Note 28 to the Financial Statements.

Net financing profit

In addition to interest income and expenses, profit from financing activity also includes non-interest financing income and expenses. This income includes financing income in respect of derivative instruments and profit from the sale of securities, which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other matters, the effects of the time value in the fair value of derivatives, which offset balance sheet interest exposures, as well as the effects of the rate of change in exchange rates and in the known CPI on derivatives balances, which offset foreign-currency and CPI exposures in respect of balance sheet balances.

Table 2-3: Composition of net financing profit

	For the year ended		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
Interest income	**32,971**	19,220	71.5%
Interest expenses	**(16,886)**	(5,753)	193.5%
Net interest income	**16,085**	13,467	19.4%
Non-interest financing income (expenses)	**1,267**	581	118.1%
Total reported financing profit	**17,352**	14,048	23.5%
Excluding effects not from regular activity:			
Income (expenses) from realization and adjustments to fair value of bonds	**(569)**	(137)	315.3%
Profit (loss) from investments in shares	**369**	(123)	(400.0%)
Adjustments to fair value of derivative instruments[1]	**372**	(178)	(309.0%)
Others[2]	**(107)**	(62)	72.6%
Total effects not from regular activity	**65**	(500)	(113.0%)
Total income from regular financing activity*[3]	**17,287**	14,548	18.8%
* Of which: in respect of changes in the CPI	**914**	1,349	(32.2%)

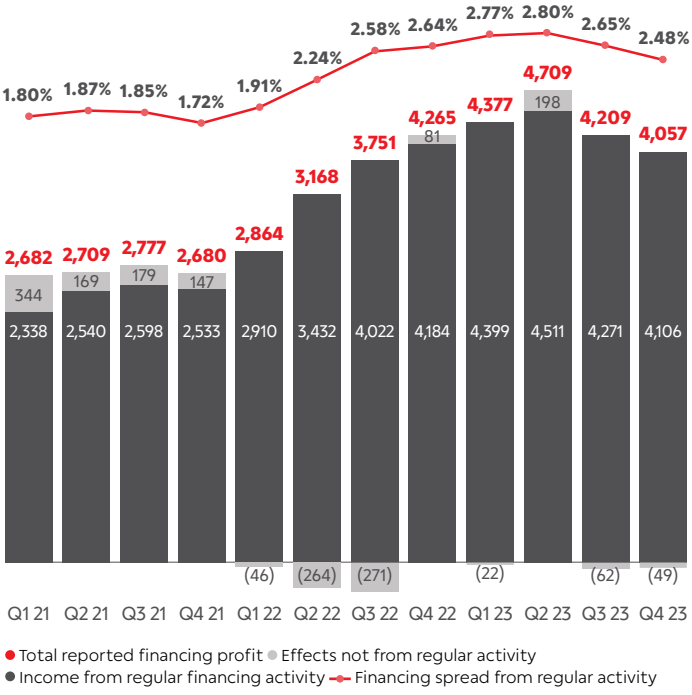
Table 2-3: Composition of net financing profit (continued)

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Interest income	**8,325**	8,502	8,622	7,522	6,374	5,139	4,304	3,403
Interest expenses	**(4,578)**	(4,496)	(4,327)	(3,485)	(2,446)	(1,503)	(1,117)	(687)
Net interest income	**3,747**	4,006	4,295	4,037	3,928	3,636	3,187	2,716
Non-interest financing income (expenses)	**310**	203	414	340	337	115	(19)	148
Total reported financing profit	**4,057**	4,209	4,709	4,377	4,265	3,751	3,168	2,864
Excluding effects not from regular activity:								
Income (expenses) from realization and adjustments to fair value of bonds	**(152)**	(197)	(143)	(77)	(173)	4	(14)	46
Profit (loss) from investments in shares	**76**	49	131	113	96	(59)	(190)	30
Adjustments to fair value of derivative instruments[1]	**164**	88	187	(67)	171	(199)	(77)	(73)
Others[2]	**(137)**	(2)	23	9	(13)	(17)	17	(49)
Total effects not from regular activity	**(49)**	(62)	198	(22)	81	(271)	(264)	(46)
Total income from regular financing activity*[3]	**4,106**	4,271	4,511	4,399	4,184	4,022	3,432	2,910
* Of which: in respect of changes in the CPI	**27**	239	382	266	202	330	516	301

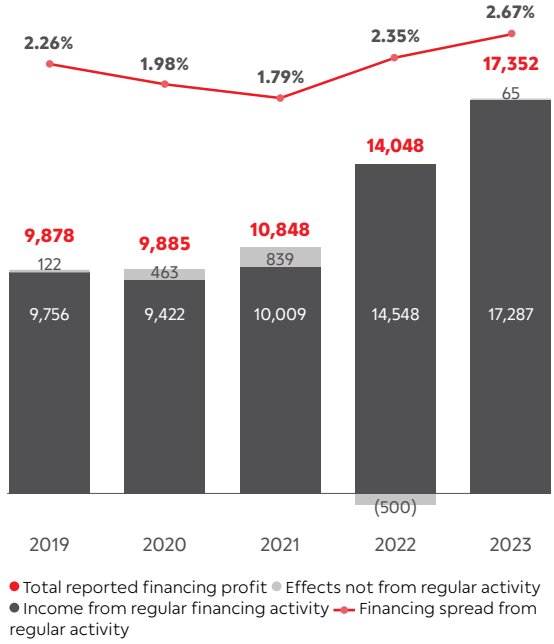
(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.
(2) Including financing costs in respect of benefits granted by the Bank to its customers due to the Swords of Iron War in the amount of approximately NIS 129 million, and the effect of hedging of currency exposures of non-monetary items.
(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.

Diagram 2-2: Net financing profit

Net financing profit
Quarterly



Net financing profit
Annual



Financing profit from regular activity totaled NIS 17,287 million in 2023, compared with a total of NIS 14,548 million in 2022. The increase mainly resulted from the effects of the increase in the shekel and dollar interest rates, reflected in an increase in spreads on deposits, as noted above, and from the effect of an increase of approximately 8% in average credit balances. By contrast, income from linkage differentials decreased due to changes in the rate of the known CPI between the periods.

Total reported financing profit amounted to NIS 17,352 million in 2023, compared with a total of NIS 14,048 million in 2022, an increase of approximately 23.5%. The increase resulted from an increase in profit from regular financing activity, as noted above. In addition, profits were recorded from investment in shares, and from a change in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis, compared with losses in the same period last year. By contrast, losses from realization of bonds increased.

As described above, net interest income and profit from regular financing activity began to trend downward in the second half of 2023, compared with the level in the first half of 2023.

In addition, costs in the amount of approximately NIS 130 million were recorded to financing profit in the fourth quarter of 2023 in respect of benefits granted by the Bank to its customers due to the Swords of Iron War. For details regarding the benefits granted, see the section "Impacts of the Swords of Iron War," above.

Table 2-4: Principal data regarding interest income and expenses

	For the year ended			
	December 31, 2023		December 31, 2022	
	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)
Interest income	**32,971**	**5.45%**	19,220	3.30%
Interest expenses	**(16,886)**	**(4.00%)**	(5,753)	(1.69%)
Net interest income	**16,085**	**1.45%**	13,467	1.61%
Of which:				
Credit spread	**7,985**		7,701	
Deposit and other spread	**8,100**		5,766	
Net interest income as a percentage of the balance of interest-bearing assets		**2.66%**		2.32%

Net interest income increased in 2023, compared with 2022, mainly as a result of an increase in the deposit and other spread. Looking at deposit spreads together with the other spread, most of which is attributed to the financial management segment, provides an indication of the effect of the increase in interest rates on the Bank's total net interest income, which is reflected in an increase in deposit spreads, on one hand, and a decrease in net interest income of the financial management segment on the other hand (due to an increase in the segment's interest expenses transferred to the divisions of the Bank in respect of resources). As noted above, the increase in income from the deposit and other spread decelerated, and a downward trend in net interest income began in the third quarter of 2023.

In 2023, the ratio of net interest income to the balance of interest-bearing assets increased by 0.34% in comparison to 2022, mainly as a result, as noted, of the increase in interest rates, which contributed to an increase of approximately 0.43% in the ratio. By contrast, a decrease in income from linkage differentials, due to changes in the rate of the known CPI between the periods, lowered the ratio by approximately 0.09%.

For further details, see the section "Rates of interest income and expenses" in the Corporate Governance Report.

For further information regarding the effect of deposit spreads on net interest income by operating segment, see Note 28 to the Financial Statements.

For further details regarding exposures to interest-rate risk and CPI risk, see the section "Review of risks," below.

The provision for credit losses totaled approximately NIS 1,879 million in 2023, compared with income in the amount of approximately NIS 34 million in 2022.

The net individual provision totaled approximately NIS 153 million in 2023, compared with income in the amount of approximately NIS 613 million in 2022. The income in 2022 mainly resulted from a decrease in the individual allowance, mainly influenced by a small number of borrowers.

The provision in respect of the collective allowance and net automatic charge-offs amounted to approximately NIS 1,726 million in 2023, compared with a provision in the amount of approximately NIS 579 million in 2022.

The provision in 2023 was mainly influenced by an increase in the collective allowance for credit losses, due to adjustments in respect of macroeconomic effects, in view of the increase in the probability of economic deceleration as a result of the effects of the war, as estimated at this stage, and a high interest-rate environment over a long period. In addition, automatic charge-offs increased.

The gradual increase in the rate of the allowance for credit losses began prior to the war, in the second half of 2022, due to uncertainty regarding local and global economic conditions.

For further information regarding the change in the allowance for credit losses, see the section "Credit risk," below, and Note 29 to the Financial Statements.

Table 2-5: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments

	For the year ended	
	December 31, 2023	December 31, 2022
	NIS millions	
Individual provision for credit losses	**462**	474
Decrease in individual allowance for credit losses and recovery of charged off debts	**(309)**	(1,087)
Net individual provision (income) for credit losses	**153**	(613)
Provision (income) in respect of the collective allowance for credit losses and net automatic charge-offs*	**1,726**	579
Total provision (income) for credit losses**	**1,879**	(34)
** Of which:		
Net provision (income) for credit losses in respect of commercial credit risk	**1,389**	(181)
Net provision (income) for credit losses in respect of housing credit risk	**117**	71
Net provision (income) for credit losses in respect of other private credit risk	**379**	40
Net provision (income) for credit losses in respect of risk of credit to banks and governments and bonds	**(6)**	36
Total provision (income) for credit losses	**1,879**	(34)

	%	
Provision (income) as a percentage of total credit to the public:***		
Provision (income) for credit losses as a percentage of the average balance of credit to the public[(1)]	**0.46%**	(0.01%)
Gross individual provision for credit losses as a percentage of the average balance of credit to the public	**0.11%**	0.12%
Gross provision for credit losses as a percentage of the average balance of credit to the public[(2)]	**0.54%**	0.28%
Net charge-offs in respect of credit to the public as a percentage of the average balance of credit to the public	**0.09%**	(0.03%)
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**5.45%**	(1.72%)

* Charge-offs in respect of debts past due by 150 days or more not examined individually.

*** The rates below are calculated on an annualized basis and refer to provisions in respect of credit to the public only, without credit losses in respect of banks and governments.

(1) Including provisions in respect of banks and governments.

(2) The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged off debts.

Table 2-5: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments (continued)

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Individual provision for credit losses	**82**	120	209	51	159	45	121	149
Decrease in individual allowance for credit losses and recovery of charged off debts	**(28)**	(127)	(96)	(58)	(63)	(196)	(129)	(699)
Net individual provision (income) for credit losses	**54**	(7)	113	(7)	96	(151)	(8)	(550)
Net provision (income) in respect of the collective allowance for credit losses and net automatic charge-offs*	**399**	669	466	192	334	196	99	(50)
Total provision (income) for credit losses**	**453**	662	579	185	430	45	91	(600)
** Of which:								
Net provision (income) for credit losses in respect of commercial credit risk	**319**	562	372	136	351	(22)	76	(586)
Net provision (income) for credit losses in respect of housing credit risk	**39**	4	62	12	37	(4)	6	32
Net provision (income) for credit losses in respect of other private credit risk	**97**	110	133	39	33	69	(16)	(46)
Net provision (income) for credit losses in respect of risk of credit to banks and governments and bonds	**(2)**	(14)	12	(2)	9	2	25	-
Total provision (income) for credit losses	**453**	662	579	185	430	45	91	(600)
	%							
Provision (income) as a percentage of total credit to the public:***								
Provision (income) for credit losses as a percentage of the average balance of credit to the public[1]	**0.44%**	0.65%	0.57%	0.19%	0.44%	0.05%	0.10%	(0.66%)
Gross individual provision for credit losses as a percentage of the average balance of credit to the public	**0.08%**	0.12%	0.21%	0.05%	0.16%	0.05%	0.13%	0.16%
Gross provision for credit losses as a percentage of the average balance of credit to the public[2]	**0.47%**	0.77%	0.67%	0.24%	0.50%	0.25%	0.24%	0.11%
Net charge-offs in respect of credit to the public as a percentage of the average balance of credit to the public	**0.14%**	0.10%	0.12%	0.01%	(0.02%)	(0.03%)	0.00%	(0.06%)
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**8.46%**	6.04%	7.89%	0.86%	(1.30%)	(1.85%)	0.16%	(4.37%)

* Charge-offs in respect of debts past due by 150 days or more not examined individually.

*** The rates below are calculated on an annualized basis and refer to provisions in respect of credit to the public only, without credit losses in respect of banks and governments.

(1) Including provisions in respect of banks and governments.

(2) The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged off debts.

Fees and other income totaled NIS 4,030 million in 2023, compared with NIS 3,872 million in 2022, as detailed below.

Income from operating fees totaled NIS 3,892 million in 2023, compared with NIS 3,705 million in 2022. The increase resulted from an increase in fees from financing transactions and credit processing fees, as well as an increase in credit-card fees, mainly influenced by an update of the operational agreement with Isracard, as detailed in Note 25.C to the Financial Statements. The increase in fees from financing transactions resulted, among other factors, from partial refunds of premiums paid in the past for Sale Law guarantee insurance, recorded in the third quarter. This increase was offset by a decrease in fees from securities activity, mainly due to a decrease in turnovers and customers' transition to money-market funds. In addition, in the fourth quarter of 2023 this item was influenced by benefits in the area of fees granted to customers to help cope with the impacts of the war, in the amount of approximately NIS 30 million, and by a decrease in various areas of activity due to the war.

Other income, mainly arising from profits from the sale of real estate and real-estate interests, totaled NIS 138 million in 2023, compared with NIS 167 million in 2022.

Table 2-6: Details of fees and other income

	For the year ended		Change
	December 31, 2023*	December 31, 2022	
	NIS millions		
Fees			
Account-management fees	**889**	877	1.4%
Securities activity	**673**	748	(10.0%)
Financial product distribution fees	**162**	179	(9.5%)
Credit cards, net	**528**	471	12.1%
Credit processing	**297**	238	24.8%
Financing transaction fees	**825**	665	24.1%
Conversion differences	**348**	324	7.4%
Other fees	**170**	203	(16.3%)
Total operating fees	**3,892**	3,705	5.0%
Total others	**138**	167	(17.4%)
Total operating income and other income	**4,030**	3,872	4.1%

* Includes the effect of benefits granted to customers due to the war, in the amount of approximately NIS 30 million.

Table 2-6: Details of fees and other income (continued)

	2023				2022			
	Q4*	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Fees								
Account-management fees	**201**	231	228	229	225	223	218	211
Securities activity	**169**	174	157	173	160	185	193	210
Financial product distribution fees	**40**	41	40	41	41	43	47	48
Credit cards, net	**112**	135	157	124	132	177	93	69
Credit processing	**85**	61	76	75	70	61	51	56
Financing transaction fees	**202**	260	177	186	167	163	161	174
Conversion differences	**75**	90	85	98	80	85	82	77
Other fees	**41**	46	41	42	54	47	58	44
Total operating fees	**925**	1,038	961	968	929	984	903	889
Total others	**18**	51	55	14	37	18	17	95
Total operating income and other income	**943**	1,089	1,016	982	966	1,002	920	984

* Includes the effect of benefits granted to customers due to the war, in the amount of approximately NIS 30 million.

Operating and other expenses totaled NIS 8,231 million in 2023, compared with NIS 7,972 million in 2022.

Table 2-7: Details of operating and other expenses

	For the year ended		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
Wages	**4,492**	4,387	2.4%
Maintenance and depreciation of buildings and equipment	**1,529**	1,441	6.1%
Other expenses	**2,210**	2,144	3.1%
Total operating and other expenses	**8,231**	7,972	3.2%

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Wages	**937**	1,136	1,171	1,248	1,082	1,076	1,068	1,161
Maintenance and depreciation of buildings and equipment	**377**	353	443	356	364	382	369	326
Other expenses	**583**	570	567	490	600	514	559	471
Total operating and other expenses	**1,897**	2,059	2,181	2,094	2,046	1,972	1,996	1,958

Salary expenses totaled NIS 4,492 million in 2023, compared with NIS 4,387 million in 2022, an increase of 2.4%. The increase mainly resulted from a one-time bonus in respect of the wage agreement, in the amount of approximately NIS 200 million, and from an increase in regular salaries. This increase was partly offset by a decrease in bonuses contingent on return, mainly in the fourth quarter. For details regarding the wage agreement, see Note 22 to the Financial Statements.

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 1,529 million in 2023, compared with NIS 1,441 million in 2022, an increase of approximately 6.1%, which mainly resulted from an increase in software depreciation and impairment expenses.

Other expenses totaled NIS 2,210 million in 2023, compared with NIS 2,144 million in 2022. The increase mainly resulted from an increase in IT expenses, actuarial costs in respect of employee benefits, and marketing expenses.

The provision for taxes on profit totaled NIS 3,930 million in 2023, compared with a total of NIS 3,548 million in 2022; the increase mainly resulted from an increase in regular profitability.

The Bank's share in profits of equity-basis investees after tax amounted to profit of NIS 18 million in 2023, compared with profit in the amount of NIS 99 million in 2022. The decrease resulted, in part, from amortizations of impairments recorded in 2023. The investments in equity-basis investees are mainly carried out through Poalim Equity (a wholly-owned subsidiary). For additional information, see the section "Principal companies," below.

Net profit attributed to shareholders of the Bank totaled NIS 7,360 million in 2023, compared with a total of NIS 6,532 million in 2022.

Basic net earnings attributed to the shareholders of the Bank per share of par value NIS 1 amounted to NIS 5.50 in 2023, compared with NIS 4.89 in 2022.

2.2.2. Developments in comprehensive income

Table 2-8: Comprehensive income

	For the year ended	
	December 31, 2023	December 31, 2022
Net profit before attribution to non-controlling interests	**7,360**	6,533
Net profit (loss) attributed to non-controlling interests	**-**	1
Net profit attributed to shareholders of the Bank	**7,360**	6,532
Other comprehensive income (loss) before taxes:		
Net adjustments in respect of bonds available for sale at fair value	**1,291**	(2,947)
Adjustments of employee benefit liabilities*	**194**	738
Other comprehensive income (loss) before taxes	**1,485**	(2,209)
Effect of related tax	**(499)**	733
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**986**	(1,476)
Net of other comprehensive income (loss) attributed to non-controlling interests	**-**	(2)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	**986**	(1,474)
Comprehensive income before attribution to non-controlling interests	**8,346**	5,057
Comprehensive income (loss) attributed to non-controlling interests	**-**	(1)
Comprehensive income attributed to shareholders of the Bank	**8,346**	5,058

* Mainly reflects adjustments in respect of actuarial estimates at the end of the year, and deduction of amounts previously recorded in other comprehensive income.

Comprehensive income totaled NIS 8,346 million in 2023, compared with a total of NIS 5,058 million in 2022. The increase in comprehensive income in 2023 was influenced by the increase in net profit and by positive adjustments in respect of bonds available for sale, due to depletion of a negative capital reserve, as a result of a shorter remaining term to maturity. This compares with negative adjustments net of tax in the amount of approximately NIS 1.5 billion in 2022, mainly in respect of the effect of changes in the interest rate on the value of the portfolio of bonds available for sale and on employee benefit liabilities.

2.2.3. Information-technology system

Table 2-9: Information-technology system

	Software	Hardware[3]	Other	Total
	NIS millions			
Additions to assets[1] in respect of the information-technology system not charged as expenses in 2023				
Costs in respect of wages and related expenses	**363**	**-**	**-**	**363**
Outsourcing costs, including consultants' fees	**130**	**-**	**-**	**130**
Costs of acquisitions or usage licenses[4]	**22**	**88**	**-**	**110**
Costs of equipment, buildings, and land	**3**	**-**	**15**	**18**
Total	**518**	**88**	**15**	**621**
Expenses in respect of the information-technology system as included in the profit and loss statement in 2023				
Expenses in respect of wages and related expenses	**501**	**133**	**-**	**634**
Expenses in respect of acquisitions or usage licenses not capitalized to assets	**235**	**49**	**48**	**332**
Outsourcing expenses, including consultants' fees	**65**	**17**	**-**	**82**
Other expenses[5]	**34**	**9**	**5**	**48**
Total expenses (excluding depreciation and amortization)	**835**	**208**	**53**	**1,096**
Total IT spend in 2023	**1,353**	**296**	**68**	**1,717**
Additional information				
Balances of assets[2] in respect of the information-technology system as at December 31, 2023				
Total depreciated cost	**1,648**	**332**	**53**	**2,033**
Of which: in respect of wages and related expenses	**1,013**	**-**	**-**	**1,013**
Depreciation and amortization expenses	**533**	**99**	**23**	**655**

(1) Including prepaid expenses in respect of the information-technology system in the amount of NIS 2 million (December 31, 2022: NIS 46 million).
(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 250 million (December 31, 2022: NIS 277 million).
(3) Including communications infrastructures.
(4) Including acquisitions and usage licenses of software and hardware for all divisions of the banking corporation.
(5) Includes expenses of the information-technology units, including current expenses for the use of communications and telephones, mail, rent, taxes, electricity, etc.

Table 2-9: Information-technology system (continued)

	Software	Hardware[3]	Other	Total
	NIS millions			
Additions to assets[1] in respect of the information-technology system not charged as expenses in 2022				
Costs in respect of wages and related expenses	358	-	-	358
Outsourcing costs, including consultants' fees	122	-	-	122
Costs of acquisitions or usage licenses[4]	61	94	-	155
Costs of equipment, buildings, and land	-	-	15	15
Total	541	94	15	650
Expenses in respect of the information-technology system as included in the profit and loss statement in 2022:*				
Expenses in respect of wages and related expenses	505	133	-	638
Expenses in respect of acquisitions or usage licenses not capitalized to assets	215	61	52	328
Outsourcing expenses, including consultants' fees	56	15	-	71
Other expenses[5]	30	10	5	45
Total expenses (excluding depreciation and amortization)	806	219	57	1,082
Total IT spend in 2022	1,347	313	72	1,732
Additional information				
Balances of assets[2] in respect of the information-technology system as at December 31, 2022				
Total depreciated cost	1,665	351	56	2,072
Of which: in respect of wages and related expenses	936	-	-	936
Depreciation and amortization expenses*	416	99	26	541

* Reclassified.
(1) Including prepaid expenses in respect of the information-technology system in the amount of NIS 2 million (December 31, 2022: NIS 46 million).
(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 250 million (December 31, 2022: NIS 277 million).
(3) Including communications infrastructures.
(4) Including acquisitions and usage licenses of software and hardware for all divisions of the banking corporation.
(5) Includes expenses of the information-technology units, including current expenses for the use of communications and telephones, mail, rent, taxes, electricity, etc.

Costs of the information-technology system (IT spend) of the Bank totaled NIS 1,717 million in 2023, compared with NIS 1,732 million in 2022. The decrease mainly resulted from a decrease in the balance of prepaid expenses compared with 2022.

2.3. Structure and development of assets, liabilities, capital, and capital adequacy

The consolidated balance sheet as at December 31, 2023, totaled NIS 686.5 billion, compared with NIS 665.4 billion at the end of 2022.

Table 2-10: Developments in principal balance sheet items

	Balance as at		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
Total assets	**686,530**	665,353	3.2%
Net credit to the public	**407,381**	388,727	4.8%
Cash and deposits with banks	**107,730**	133,424	(19.3%)
Securities	**127,122**	107,400	18.4%
Deposits from the public	**554,595**	532,588	4.1%
Bonds and subordinated notes	**21,800**	26,866	(18.9%)
Shareholders' equity	**52,430**	46,502	12.7%

2.3.1. Structure and development of assets and liabilities

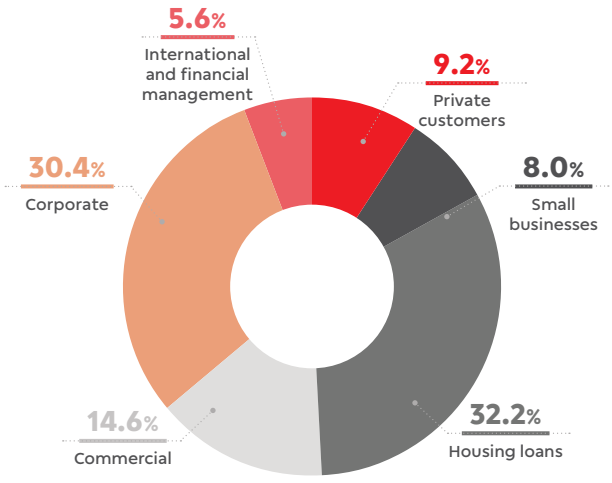
Credit to the public

Table 2-11: Development of net balance sheet credit to the public by operating segment according to the management approach

	Balance as at		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
Private customers*	**37,663**	**38,880	(3.1%)
Small businesses*	**32,729**	34,998	(6.5%)
Housing loans	**131,057**	127,688	2.6%
Commercial	**59,300**	57,945	2.3%
Corporate	**123,994**	108,316	14.5%
International activity	**18,072**	17,210	5.0%
Financial management	**4,566**	**3,690	23.7%
Total	**407,381**	388,727	4.8%

* Includes the receivables balance in respect of credit cards.
** Reclassified.

Diagram 2-3: Segmentation of credit by principal segment as at December 31, 2023



For further information regarding the development of credit and credit risks by economic sector, see the section "Credit risk," below.

Problematic debts

Table 2-12: Problematic credit risk[1]

	December 31, 2023			December 31, 2022		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Non-accruing credit risk	**4,012**	**669**	**4,681**	3,445	813	4,258
Substandard credit risk	**782**	**76**	**858**	830	42	872
Special mention credit risk	**3,596**	**495**	**4,091**	2,143	471	2,614
Total problematic credit risk*	**8,390**	**1,240**	**9,630**	6,418	1,326	7,744
Net problematic credit risk	**6,730**	**1,084**	**7,814**	5,351	1,136	6,487
* Of which, accruing debts past due by 90 days or more	**297**	**-**	**297**	83	-	83

(1) Non-accruing, substandard, or special mention credit risk.

Note:
Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

Problematic credit risk increased by approximately 20% in 2023, mainly reflected in an increase in special mention credit risk.

For further information regarding the analysis of the credit portfolio and problematic credit risk, including the scenarios and sensitivity analyses tested, see the section "Credit risk," below.

Off-balance sheet credit

Table 2-13: Developments in principal off-balance sheet items

	Balance as at		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
Off-balance sheet financial instruments, excluding derivatives			
Documentary credit	**907**	1,741	(47.9%)
Guarantees and other commitments**	**77,464**	82,849	(6.5%)
Unutilized credit-card credit facilities	**16,741**	12,427	34.7%
Unutilized revolving overdraft and other credit facilities in on-demand accounts	**27,011**	*25,242	7.0%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees**	**96,824**	*87,061	11.2%

* Reclassified.
** Includes off-balance sheet credit risk in respect of which insurance was acquired from foreign insurers.

In 2023, the volume of off-balance sheet financial instruments grew by approximately NIS 10 billion compared with the end of 2022. The increase mainly resulted from an increase in the volume of unutilized credit facilities in credit cards, the volume of irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees. This increase was partly offset by a decrease in documentary credit and in guarantees, mainly to buyers of homes. Insurance was acquired from foreign insurance companies in respect of some of these guarantees.

Securities

The Bank has investments in government and corporate bonds, as well as investments in tradable (mainly foreign) and non-tradable shares, broadly diversified.

Investments in securities totaled approximately NIS 127.1 billion as at December 31, 2023, compared with approximately NIS 107.4 billion at the end of 2022, an increase of approximately 18.4%, reflected in an increase in the volume of holdings in government bonds of the Israeli government and the United States government.

Expenses in the amount of approximately NIS 569 million from realization and adjustments to fair value of bonds were recorded in 2023, mainly from realization of government bonds at a loss, compared with expenses in the amount of approximately NIS 137 million in the preceding year.

In light of the rise in the shekel and dollar interest-rate curves, a decrease in the amount of approximately NIS 3.1 billion (before tax) was recorded in 2022 in respect of changes in the value of bonds in the available-for-sale portfolio. This decrease was recorded to the capital reserve in respect of bonds. The capital reserve increased by NIS 1.3 billion (before tax) in 2023. The increase resulted from depletion of the negative capital reserve, due to a shorter remaining term to maturity, and from the sale of bonds with a negative capital reserve. With regard to sensitivity of the capital reserve to changes in interest rates, see the section "Capital adequacy," below.

The overall share portfolio of the Bank Group totaled approximately NIS 4.4 billion, compared with a total of approximately NIS 4.0 billion at the end of 2022.

Net profit from revaluation, dividends, and realization of shares in the amount of approximately NIS 369 million was recorded in respect of the share portfolio of the Bank Group in 2023, compared with a loss in the amount of approximately NIS 123 million in the preceding year, following impairments in a total amount of NIS 92 million recorded in 2023.

The share portfolio of the Bank contains tradable shares (measured at fair value) and non-tradable shares (measured at cost or observable price, if it exists, less impairment), and may be influenced by various exogenous factors, such as an increase in inflation, changes in interest rates, and the behavior of the capital market, including as a result of the escalating security situation and the continuation of the war. Prolonged deterioration of economic conditions may lead to a decrease in the value of the shares.

Details of the Bank Group's activity in securities are set out below.

Table 2-14: Securities balances

	Held to maturity		Available for sale		Trading book		Total	
	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities
	NIS millions/percent							
December 31, 2023								
Israeli government bonds	**13,440**	**10.6%**	**54,766**	**43.1%**	**16,097**	**12.6%**	**84,303**	**66.3%**
US government bonds	**1,892**	**1.5%**	**20,652**	**16.2%**	**1,615**	**1.3%**	**24,159**	**19.0%**
Government bonds – other foreign countries	**-**	**0.0%**	**1,482**	**1.2%**	**-**	**-**	**1,482**	**1.2%**
Total government bonds	**15,332**	**12.1%**	**76,900**	**60.5%**	**17,712**	**13.9%**	**109,944**	**86.5%**
Corporate bonds – Israel	**404**	**0.3%**	**54**	**-**	**-**	**-**	**458**	**0.3%**
Corporate bonds – foreign countries	**-**	**-**	**12,287**	**9.7%**	**-**	**0.0%**	**12,287**	**9.7%**
Total corporate bonds	**404**	**0.3%**	**12,341**	**9.7%**	**-**	**0.0%**	**12,745**	**10.0%**
Shares*	**-**	**-**	**4,433**	**3.5%**	**-**	**-**	**4,433**	**3.5%**
Total securities	**15,736**	**12.4%**	**93,674**	**73.7%**	**17,712**	**13.9%**	**127,122**	**100.0%**
December 31, 2022								
Israeli government bonds	8,016	7.4%	51,751	48.2%	7,706	7.2%	67,473	62.8%
US government bonds	1,801	1.7%	20,153	18.8%	765	0.7%	22,719	21.2%
Government bonds – other foreign countries	-	-	1,499	1.4%	-	-	1,499	1.4%
Total government bonds	9,817	9.1%	73,403	68.4%	8,471	7.9%	91,691	85.4%
Corporate bonds – Israel	299	0.3%	-	-	-	-	299	0.3%
Corporate bonds – foreign countries	-	-	10,704	10.0%	658	0.6%	11,362	10.6%
Total corporate bonds	299	0.3%	10,704	10.0%	658	0.6%	11,661	10.9%
Shares*	-	-	4,048	3.8%	-	-	4,048	3.7%
Total securities	10,116	9.4%	88,155	82.2%	9,129	8.5%	107,400	100.0%

* Shares not held for trading.

Table 2-15: Details of corporate bonds by economic sector

	Balance as at			
	December 31, 2023		December 31, 2022	
	Balance sheet value	Percentage of total corporate bonds	Balance sheet value	Percentage of total corporate bonds
	NIS millions		NIS millions	
Mining and quarrying	**443**	**3.5%**	394	3.4%
Industry	**1,164**	**9.1%**	1,331	11.4%
Electricity and water supply	**417**	**3.3%**	415	3.6%
Information and communications	**436**	**3.4%**	369	3.2%
Banks and financial institutions	**9,481**	**74.4%**	8,253	70.7%
Commerce	**252**	**2.0%**	335	2.9%
Transportation and storage	**318**	**2.5%**	237	2.0%
Other sectors	**234**	**1.8%**	327	2.8%
Total corporate bonds	**12,745**	**100.0%**	11,661	100.0%

For further details regarding amounts measured at fair value, see Note 32.B to the Financial Statements.

Deposits

Table 2-16: Developments in balances of deposits

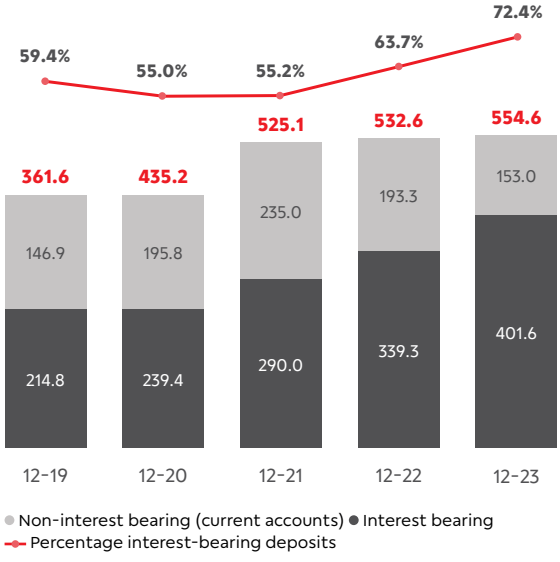
	Balance as at		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
Deposits from the public	**554,595**	532,588	4.1%
Deposits from banks	**9,085**	8,696	4.5%
Deposits from the government	**2,436**	3,262	(25.3%)
Total	**566,116**	544,546	4.0%

Table 2-17: Additional information regarding deposits of the public

	Balance as at		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
On demand			
Non-interest bearing	**153,029**	193,328	(20.8%)
Interest bearing	**143,880**	136,637	5.3%
Total on demand	**296,909**	329,965	(10.0%)
Fixed term	**257,686**	202,623	27.2%
Total deposits from the public	**554,595**	532,588	4.1%

The balance of deposits totaled approximately NIS 566.1 billion as at December 31, 2023, compared with a total of approximately NIS 544.5 billion at the end of 2022. A trend of change in the composition of deposits from the public, in the form of a transition of the public from non-interest-bearing deposits to fixed-term deposits, which began in 2022 with the increase in the interest rate in Israel, continued during 2023.

Diagram 2-4: Development of the composition of deposits from the public



Off-balance sheet activity in securities held by the public

Table 2-18: Developments in balances of off-balance sheet monetary assets held by the Bank Group's customers

	Balance as at		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
Securities[1]	**894,813**	802,789	11.5%

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services, and services incidental to account management at various volumes.

The increase in the volume of securities of customers of the Bank Group in 2023 was influenced, among other factors, by customers' transition from deposits to tradable segments with low risk levels and by change in the value of foreign securities.

Bonds and subordinated notes

Bonds and subordinated notes totaled approximately NIS 21.8 billion as at December 31, 2023, compared with approximately NIS 26.9 billion at the end of 2022, a decrease of approximately 18.9%, which mainly resulted from maturities of bonds and early redemption of subordinated notes.

For further details, see Note 20 to the Financial Statements and the section "Capital adequacy," below.

In May 2023, after receiving permission from the Israel Securities Authority, the Bank published a shelf prospectus that will allow the Bank to issue shares and securities convertible into shares, bonds, subordinated notes, and other securities.

Table 2-19: Details of bonds and subordinated notes

	December 31, 2023		December 31, 2022	
	Balance sheet value	Of which: tradable*	Balance sheet value	Of which: tradable*
	NIS millions			
Subordinated notes	**8,388**	**8,374**	10,103	10,082
Bonds	**13,412**	**13,412**	16,763	16,763
Total bonds and subordinated notes	**21,800**	**21,786**	26,866	26,845

* Includes bonds and subordinated notes traded on the Retzef Mosdi'im (TACT Institutional) system.

Table 2-20: Derivative instruments

	December 31, 2023			December 31, 2022		
	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value	Notional value
	NIS millions					
Interest contracts	**9,992**	**9,329**	**965,469**	11,264	10,913	746,699
Currency contracts	**9,130**	**8,854**	**496,855**	8,368	5,921	408,580
Share-related contracts	**6,136**	**6,055**	**273,443**	2,255	2,223	156,915
Commodity and service contracts (including credit derivatives)	**13**	**12**	**61**	4	4	109
Total	***25,271**	***24,250**	**1,735,828**	*21,891	*19,061	1,312,303

* Of which: net fair value of assets and liabilities in respect of embedded derivatives in the amount of NIS 42 million and NIS 10 million, respectively, included in the balance sheet in the item "deposits from the public" (December 31, 2022: assets and liabilities in the amount of NIS 59 million and NIS 18 million, respectively).

The balances of nominal value and fair value of derivative instruments increased in 2023. Most of the increase in nominal-value balances resulted from activity in short-term interest contracts and the volume of activity in share contracts. Most of the increase in fair value resulted from share contracts. The increase resulted both from an increase in the volume of activity and from changes in the prices of the shares on the markets. The Bank generally operates with counterparties under netting agreements and with collateral aimed at reducing the credit exposure arising from activity in derivate instruments of these counterparties.

2.3.2. Capital, capital adequacy, and leverage

(1) Capital

Investments in the capital of the Bank and transactions in its shares

The issued and paid-up share capital of the Bank, as at December 31, 2023, is NIS 1,337,267,218 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital excluding 109,893 ordinary shares purchased by the Bank ("Treasury Shares").

For details regarding the decentralization of the controlling core of the Bank and its transition to a bank without a controlling core, see the section "Other matters" in the Corporate Governance Report.

Dividends

Dividend distribution by the Bank is subject to tests and limits set forth in the Companies Law and in the directives of the Banking Supervision Department, including Proper Conduct of Banking Business Directive 331. Any distribution and the rate thereof are subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account the directives of all laws, any constraints on distribution, and business considerations, including the strategy of the Bank.

The dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit.

In May 2023, the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 803 million, which constituted approximately 40% of the net profit of the Bank for the first quarter of 2023.
In August 2023, the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 769 million, which constituted approximately 40% of the net profit of the Bank for the second quarter of 2023.
On November 12, 2023, the Banking Supervision Department issued a guideline concerning capital planning and profit distribution policy pursuant to which banking corporations are required to reexamine their dividend distribution policies for the coming period, in view of the war and the increase in uncertainty with regard to its duration and the scope of its effect on the economy. Prior to the publication of the annual financial statements for 2023, the Banking Supervision Department gave notice that this guideline would also apply to the banking system with regard to distributions in respect of the fourth quarter of 2023.
Taking into consideration this guideline of the Banking Supervision Department, in November 2023 the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 334 million, constituting approximately 20% of the net profit of the Bank for the third quarter of 2023, and, at the date of approval of this report, the distribution of dividends in the amount of NIS 352 million, constituting approximately 20% of the net profit of the Bank for the fourth quarter of 2023, to be paid on April 8, 2024. In its decision, the Board of Directors of the Bank examined the rate of the distribution and adjusted it to the guideline of the Banking Supervision Department, and noted the ability of the Bank to potentially declare a higher dividend than the above, in light of the Bank's significant capital surpluses and robust financial position in relation to the various capital requirements.

Table 2-21: Details of dividends paid

Date of declaration	Date of payment	Distribution rate*	Dividend per share	Dividend paid in cash
			Agorot	NIS millions
March 7, 2024	April 8, 2024	20%	26.322	352.0
November 16, 2023	December 6, 2023	20%	24.976	334.0
August 14, 2023	September 6, 2023	40%	57.505	769.0
May 22, 2023	June 14, 2023	40%	60.048	803.0
March 8, 2023	March 30, 2023	30%	39.272	525.0
November 22, 2022	December 11, 2022	30%	40.095	536.0
August 14, 2022	September 7, 2022	30%	30.146	403.0

* Percentage of the profits of the quarter preceding the distribution date.

(2) Capital adequacy

The Bank's approach to capital-adequacy assessment

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department.

These directives are based on three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets the forth internal processes (the ICAAP – Internal Capital Adequacy Assessment Process) used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process performed by the Banking Supervision Department.
- Pillar 3 – Market discipline; this pillar requires quantitative and qualitative disclosure within the report to the public on the risks to which the bank is exposed, in order to estimate the extent of the bank's exposure to risk factors.

The Basel Committee on Banking Supervision is applying updates to the framework for capital-adequacy measurement, sometimes referred to as "Basel 4." Significant updates have been established in connection with the method of calculating risk-adjusted assets in respect of which capital requirements are required to be calculated in Pillar 1. Implementation of the standards included in the update in the European Union will commence on January 1, 2025. At this stage, the date of implementation in Israel has not yet been determined. In accordance with its policy of adopting prevalent international standards, the Banking Supervision Department has adopted the directives of the Basel Committee of 2017 on the subject of the calculation of credit requirements in respect of operational risk. On December 29, 2022, the Banking Supervision Department issued a draft update of Proper Conduct of Banking Business Directive 206, "Capital Measurement and Adequacy – Operational Risk." The draft establishes an updated definition for the calculation of the capital allocation in respect of operational risk, such that it is based, among other things, on components of the business indicator described in the draft and on an internal loss multiplier based on the average historical losses of the banking corporation. Pursuant to the draft, partial implementation of the directive will begin on January 1, 2026. The Bank is in the process of preparation for the implementation of this directive.

Capital-adequacy target and capital management and planning

Pursuant to the directives of the Banking Supervision Department, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 10.0% and a minimum total capital ratio of 13.5%. A capital requirement is added to the common equity Tier 1 capital ratio at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief has been granted. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank required by the Banking Supervision Department, on a consolidated basis, as at December 31, 2023, stand at 10.23% and 13.50%, respectively.

The common equity Tier 1 capital target established by the Bank takes into consideration, among other matters, the results of the internal processes of the Bank for determining capital targets, including the results of internal stress tests run by the Bank, and the outcomes of discussions held with the Banking Supervision Department regarding the specific risk attributes of the Bank, within the most recent supervisory review process and the most recent uniform stress tests performed.
In order to comply with the capital-adequacy target and manage capital effectively, capital planning is performed at the Bank based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Bank also routinely monitors actual results as compared to planning, and the gaps between results and planning, and, as necessary, examines the actions needed in order to comply with the established capital targets. As part of the establishment of the internal capital targets of the Bank, as detailed below, the policy of the Bank is to maintain capital adequacy at a level higher than the minimum ratio required by the Banking Supervision Department, and not lower than the level of capital adequacy required to cover the risks as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Bank examines the effect of stress scenarios on capital-adequacy ratios; accordingly, plans are in place for preparedness to return to regulatory capital adequacy in the case of such a stress event.
Based on the processes of establishment of internal capital targets of the Bank and the results of the internal discussions held with the Banking Supervision Department (as described above), the Board of Directors of the Bank set an internal target for the common equity Tier 1 capital ratio at a rate of no less than 10.5%.

The Bank manages its capital-adequacy ratio with the aim of complying with the minimum capital requirements of the Banking Supervision Department and with the internal target, while maintaining safety margins.
The capital of the Bank and the volume of risk-adjusted assets are subject to changes, due to the following factors, among others:

- Effects of changes in the interest rate on capital reserves from bonds available for sale.
- Effects of changes in the CPI, exchange rates, and the rating of the state on risk-adjusted asset balances.
- Actuarial changes resulting from changes in the interest rate for the calculation of the Bank's liabilities, or other actuarial assumptions.

The sensitivity of the capital reserve in respect of bonds available for sale, net, after tax effect, to a theoretical increase of 1% in the risk-free yield curve and in the credit risk spread is estimated at a decrease in the amount of approximately NIS 0.9 billion and approximately NIS 0.8 billion, respectively. By contrast, the sensitivity of the capital reserve arising from adjustments for actuarial changes, net, after tax effect, to a theoretical increase of 1% in the discount rate is estimated at an increase in the amount of approximately NIS 0.2 billion.
Capital requirements in respect of the exposures of the Bank to the government of Israel, Israeli banks, institutional entities, and public-sector entities are derived from the rating of the State of Israel.

As stated in the section "Economic review," above, Moody's has downgraded its credit rating for the state, while Fitch and S&P have placed the state on a negative watch list and revised the state's debt rating outlook to negative, respectively. Thus, there is a risk that the credit rating of the state may be downgraded by these two rating agencies in the near future. We emphasize that since 2021, the Bank has used S&P as a single rater for country ratings for the purposes of capital-adequacy measurement; accordingly, rating downgrades by other agencies, such as Moody's, that have occurred and/or may occur have no immediate effect on the capital ratio. The direct effect of a downgrade of the credit rating of the State of Israel by Standard & Poor's Rating Group, if it occurs, would lead to a reduction of 0.24% and 0.30% in the Tier 1 capital ratio and the total capital ratio, respectively.

Changes in capital

For details regarding the completion of the transaction for the sale of the holdings of the Bank in Bank Pozitif, see Note 24.I to the Financial Statements. Following the completion of the sale, the common equity Tier 1 capital ratio rose by 0.05%.

For additional information regarding the subordinated notes, see Note 24.J to the Financial Statements.

For further details regarding supervisory adjustments and deductions, and regarding additional effects on capital and capital adequacy, including directives prior to the date of implementation, see Note 24 to the Financial Statements.

Table 2-22: Calculation of the capital-adequacy ratio

	December 31, 2023	December 31, 2022
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier 1 capital	**52,641**	46,745
Tier 1 capital	**52,641**	46,745
Tier 2 capital	**13,338**	14,349
Total overall capital	**65,979**	61,094
2. Weighted balances of risk-adjusted assets		
Credit risk	**403,897**	386,550
Market risks	**4,245**	4,007
Operational risk	**29,710**	25,020
Total weighted balances of risk-adjusted assets	**437,852**	415,577
	%	
3. Ratio of capital to risk components		
Ratio of common equity Tier 1 capital to risk components[(1)]	**12.02%**	11.25%
Ratio of Tier 1 capital to risk components	**12.02%**	11.25%
Ratio of total capital to risk components	**15.07%**	14.70%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department[(2)]	**10.23%**	10.23%
Minimum total capital ratio required by the Banking Supervision Department[(2)]	**13.50%**	13.50%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, and include adjustments in respect of regulatory directives, as follows:
1. A relief in respect of efficiency plans, recorded in equal parts over five years from their inception, until December 31, 2024, estimated at an additional future decrease of approximately 0.02% in the common equity Tier 1 capital ratio as at December 31, 2023 (0.04% as at December 31, 2022).
2. The effect of the implementation of accounting principles concerning current expected credit losses, which gradually decreases until December 31, 2024, estimated at an additional future decrease of approximately 0.04% in the common equity Tier 1 capital ratio as at December 31, 2023 (0.08% as at December 31, 2022).
3. A relief in respect of the implementation of the circular of the Bank of Israel concerning weighting of high-risk loans for the acquisition of land, spread in equal quarterly parts from September 30, 2022, to June 30, 2023; the effect of the relief was 0.04% as at December 31, 2022.

(2) The minimum common equity Tier 1 capital ratio and the minimum total capital ratio are 10.0% and 13.5%, respectively. A capital requirement is added to the common equity Tier 1 capital ratio at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief was granted under the Temporary Order.

(3) Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

In November 2020, the Banking Supervision Department issued a circular, as a temporary order, updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations must maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system (the Bank is such a banking corporation) must maintain a leverage ratio of no less than 5.5% (instead of 6.0% prior to the relief).

The period of the relief was extended until December 31, 2025; after that date, the requirement is to return to the leverage ratio required prior to the Temporary Order (6.0%) within two quarters.

Table 2-23: Leverage ratio

	December 31, 2023	December 31, 2022
	NIS millions	
Consolidated data		
Tier 1 capital*	**52,641**	46,745
Total exposures*	**760,396**	737,115
	%	
Leverage ratio	**6.92%**	6.34%
Minimum leverage ratio required by the Banking Supervision Department in the period of the Temporary Order	**5.50%**	5.50%
Minimum leverage ratio required by the Banking Supervision Department after the end of the Temporary Order	**6.00%**	6.00%

* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see Note 24.H to the Financial Statements). The effect of the relief in respect of the efficiency plans on the leverage ratio as at December 31, 2023, estimated at an additional future decrease of approximately 0.01%, is recorded in equal parts over five years, from their inception date until December 31, 2024. In addition, the data include adjustments in respect of the effect of the implementation of accounting principles concerning current expected credit losses, which are to be gradually reduced until December 31, 2024. The effect of the relief in respect of current expected credit losses as at December 31, 2023, is estimated at an additional future decrease of approximately 0.02%.

2.4. Description of the Bank Group's business by supervisory operating segments

Supervisory operating segments are reported in the uniform format established by the Banking Supervision Department for the entire banking system. The segments are based on customer characteristics, such as asset portfolio volume with respect to private customers, or annual revenue of a business with respect to business customers.

This reporting is fundamentally different from the operating segments used at the Bank according to the approach of its management, which are described in Note 28A to the Financial Statements and in the section "Operating segments based on the management approach" in the Corporate Governance Report.

For further information regarding the business of the Bank Group according to supervisory operating segments, see Note 28 to the Financial Statements.

Table 2-24: Results of operations and principal data of the supervisory operating segments

	For the year ended December 31, 2023										
	Activity in Israel									Activity overseas	Total
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	**6,792**	**515**	**3,979**	**1,323**	**2,434**	**245**	**1,192**	**-**	**16,480**	**872**	**17,352**
Fees and other income	**1,279**	**141**	**1,007**	**378**	**709**	**92**	**180**	**192**	**3,978**	**52**	**4,030**
Total income	**8,071**	**656**	**4,986**	**1,701**	**3,143**	**337**	**1,372**	**192**	**20,458**	**924**	**21,382**
Provision (income) for credit losses	**495**	**1**	**718**	**524**	**80**	**(2)**	**(6)**	**-**	**1,810**	**69**	**1,879**
Operating and other expenses	**3,824**	**216**	**1,899**	**449**	**738**	**161**	**423**	**58**	**7,768**	**463**	**8,231**
Net profit (loss) attributed to shareholders of the Bank	**2,450**	**287**	**1,547**	**468**	**1,494**	**117**	**686**	**86**	**7,135**	**225**	**7,360**

	For the year ended December 31, 2022										
	Activity in Israel									Activity overseas	Total
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	4,256	268	2,882	1,048	1,840	236	2,795	-	13,325	723	14,048
Fees and other income	1,313	145	979	315	600	99	150	232	3,833	39	3,872
Total income	5,569	413	3,861	1,363	2,440	335	2,945	232	17,158	762	17,920
Provision (income) for credit losses	112	(1)	192	(109)	(368)	(2)	35	-	(141)	107	(34)
Operating and other expenses	3,680	202	1,897	424	669	168	412	67	7,519	453	7,972
Net profit (loss) attributed to shareholders of the Bank	1,155	138	1,155	669	1,372	109	1,722	105	6,425	107	6,532

Principal changes in net profit and balance sheet balances

Household Segment

Net profit attributed to the Household Segment totaled NIS 2,450 million in 2023, compared with NIS 1,155 million in the preceding year. The increase mainly resulted from an increase in net financing profit, offset by an increase in the provision for credit losses and an increase in operating and other expenses.

Net financing profit totaled NIS 6,792 million in 2023, compared with NIS 4,256 million in the preceding year. The increase mainly resulted from an increase in the spread on deposits, due to the increase in the shekel and dollar interest rates.

Fees and other income totaled NIS 1,279 million in 2023, compared with NIS 1,313 million in the preceding year. The decrease mainly resulted from a decrease in capital-market fees, and from a decrease in financial product distribution fees, influenced by benefits in the area of fees granted to customers to help cope with the impacts of the war in the fourth quarter.

A provision for credit losses in the amount of approximately NIS 495 million was recorded in 2023, compared with a provision in the amount of approximately NIS 112 million in the preceding year. The increase mainly resulted from an increase in the collective allowance for credit losses, due to adjustments in respect of macroeconomic effects, in view of the increase in the probability of economic deceleration as a result of the impacts of the war, as estimated at this time, and a high interest-rate environment over a long period. In addition, automatic charge-offs increased.

Operating and other expenses of the segment totaled NIS 3,824 million in 2023, compared with NIS 3,680 million in the preceding year. The increase mainly resulted from an increase in salary expenses, due to a one-time bonus in respect of the wage agreement, and from an increase in IT expenses and in software depreciation and impairment expenses.

Private Banking Segment

Net profit attributed to the Private Banking Segment totaled NIS 287 million in 2023, compared with NIS 138 million in the preceding year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 515 million in 2023, compared with NIS 268 million in the preceding year. The increase mainly resulted from an increase in the spread on deposits, due to the increase in the shekel and dollar interest rates.

Fees and other income totaled NIS 141 million in 2023, compared with NIS 145 million in the preceding year.

Operating and other expenses of the segment totaled NIS 216 million in 2023, compared with NIS 202 million in the preceding year.

Small Business and Microbusiness Segment

Net profit attributed to the Small Business and Microbusiness Segment totaled NIS 1,547 million in 2023, compared with NIS 1,155 million in the preceding year. Most of the increase resulted from an increase in net financing profit. This increase was partly offset by an increase in the provision for credit losses.

Net financing profit totaled NIS 3,979 million in 2023, compared with NIS 2,882 million in the preceding year. The increase mainly resulted from an increase in the spread on deposits, due to the increase in the shekel and dollar interest rates.

Fees and other income totaled NIS 1,007 million in 2023, compared with NIS 979 million in the preceding year. The increase mainly resulted from an increase in credit-card fees, due to an update of the operating agreement with Isracard.

A provision for credit losses in the amount of NIS 718 million was recorded in 2023, compared with a provision in the amount of NIS 192 million in the preceding year. The increase mainly resulted from an increase in the collective allowance for credit losses, due to adjustments in respect of macroeconomic effects, in view of the increase in the probability of economic deceleration as a result of the impacts of the war, as estimated at this time, and a high interest-rate environment over a long period. In addition, automatic charge-offs increased.

Operating and other expenses of the segment totaled NIS 1,899 million in 2023, compared with NIS 1,897 million in the preceding year.

Mid-sized Business Segment

Net profit attributed to the Mid-sized Business Segment totaled NIS 468 million in 2023, compared with NIS 669 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses, partly offset by an increase in net financing profit and an increase in fees and other income in comparison to the preceding year.

Net financing profit totaled NIS 1,323 million in 2023, compared with NIS 1,048 million in the preceding year. The increase mainly resulted from an increase in the spread on deposits, due to the increase in the shekel and dollar interest rates.

Fees and other income totaled NIS 378 million in 2023, compared with NIS 315 million in the preceding year. The increase mainly resulted from an increase in fees from financing transactions, mainly due to partial refunds of premiums paid in the past for Sale Law guarantee insurance.

A provision for credit losses in the amount of approximately NIS 524 million was recorded in 2023, compared with income in the amount of approximately NIS 109 million in the preceding year. The change mainly resulted from an increase in the collective allowance, due to adjustments in respect of macroeconomic effects, in view of the increase in the probability of economic deceleration as a result of the impacts of the war, as estimated at this time, as well as a high interest-rate environment over a long period. In addition, the individual allowance increased.

Operating and other expenses of the segment totaled approximately NIS 449 million in 2023, compared with NIS 424 million in the preceding year. The increase mainly resulted from an increase in IT expenses and in software depreciation and impairment expenses, and from an increase in salary expenses.

Large Business Segment

Net profit attributed to the Large Business Segment totaled NIS 1,494 million in 2023, compared with NIS 1,372 million in the preceding year. The increase mainly resulted from an increase in net financing profit and an increase in fees and other income in comparison to the preceding year. These increases were partly offset by an increase in the provision for credit losses and an increase in operating and other expenses.

Net financing profit totaled NIS 2,434 million in 2023, compared with NIS 1,840 million in the preceding year. The increase mainly resulted from an increase in the spread on deposits and credit, due to the increase in the shekel and dollar interest rates, and from an increase in credit volumes.

Fees and other income totaled NIS 709 million in 2023, compared with NIS 600 million in the preceding year. The increase mainly resulted from an increase in fees from financing transactions and credit processing fees.
A provision for credit losses in the amount of approximately NIS 80 million was recorded in 2023, compared with income in the amount of approximately NIS 368 million in the preceding year. The change mainly resulted from a decrease in individual income.
Operating and other expenses of the segment totaled approximately NIS 738 million in 2023, compared with NIS 669 million in the preceding year. The increase mainly resulted from an increase in IT expenses and in software depreciation and impairment expenses, and from an increase in salary expenses.

Institutional Entity Segment

Net profit attributed to the Institutional Entity Segment totaled NIS 117 million in 2023, compared with NIS 109 million in the preceding year.
Net financing profit totaled NIS 245 million in 2023, compared with NIS 236 million in the preceding year.
Fees and other income totaled NIS 92 million in 2023, compared with NIS 99 million in the preceding year. The decrease mainly resulted from a decrease in capital-market fees.

Financial Management Segment

Net profit attributed to the Financial Management Segment totaled NIS 686 million in 2023, compared with NIS 1,722 million in the preceding year. The decrease mainly resulted from a decrease in net financing profit.
Net financing profit totaled NIS 1,192 million in 2023, compared with NIS 2,795 million in the preceding year. The decrease mainly resulted from an increase in the interest transferred to the divisions of the Bank in respect of sources. In addition, losses from realization of bonds increased, and income from linkage differentials decreased, as a result of changes in the rate of the known CPI between the periods. By contrast, profits were recorded from investment in shares, and from a change in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis, compared with losses in the preceding year.
Fees and other income totaled NIS 180 million in 2023, compared with NIS 150 million in the preceding year. The increase mainly resulted from an increase in syndication fees.

Other Segment (activity in Israel)

Net profit attributed to the Other Segment totaled NIS 86 million in 2023, compared with net profit in the amount of NIS 105 million in the preceding year. The decrease mainly resulted from a decrease in fees and other income, and from an increase in operating and other expenses in comparison to the preceding year.
Fees and other income totaled NIS 192 million in 2023, compared with NIS 232 million in the preceding year. The decrease resulted from a decrease in capital-market fees and from a decrease in other income, as a result of the sale of property interests in the comparison period.
Operating and other expenses totaled approximately NIS 58 million in 2023, compared with NIS 67 million in the preceding year.

International Activity Segment

Net profit attributed to the International Activity Segment totaled NIS 225 million in 2023, compared with net profit in the amount of NIS 107 million in the preceding year.

The principal changes in the results of international activity are set out below:

- The net profit of the New York branch totaled approximately NIS 288 million in 2023, compared with net profit of approximately NIS 199 million in the preceding year. The increase mainly resulted from an increase in net financing profit, partly offset by an increase in operating expenses. The increase in net financing profit mainly resulted from an increase in credit volumes, and from an increase in deposit spreads, due to the increase in the dollar interest rate.
- The loss of Hapoalim Switzerland totaled approximately NIS 63 million in 2023, similar to the loss recorded in 2022.

For details regarding the sale of Pozitif and the return of the banking license at Hapoalim Switzerland, see Note 15 to the Financial Statements.

2.5. Description of the Bank Group's business by operating segment based on the management approach

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into operating segments according to the management approach is based on types of products and services, or on types of customers and their assignments to the organizational units by which they are served, which is performed in accordance with various criteria established by the Board of Management of the Bank. The Board of Management of the Bank uses this division to make decisions and to analyze the Group's business results.

For additional information regarding the operating segments and analysis of the segments' results, see Note 28A to the Financial Statements and the section "Operating segments based on the management approach" in the Corporate Governance Report.

2.6. Principal companies

2.6.1. Companies in Israel

Poalim Equity Group

The Poalim Equity Group, which serves as the non-financial investment arm of the Bank and is held under its full ownership, operates in two main areas:

Direct equity and quasi-equity investments (including mezzanine) in companies; investments and ventures in private investment funds; and investment banking in and outside Israel.

Poalim Equity also holds approximately 22.2% of the public company IBI Management and Underwriting Ltd. (formerly Poalim IBI Management and Underwriting Ltd.), which provides consulting, underwriting, and funding management services.

The Bank is considering alternatives for activity in the field of underwriting; as part of this process, Poalim Equity is in talks regarding a minority investment in the Leader Group. There is no certainty that the talks will lead to a deal, and any deal, if attained, would require regulatory approvals to be received.
The balance of investments of Poalim Equity totaled approximately NIS 4.2 billion as at December 31, 2023, compared with approximately NIS 3.3 billion at the end of 2022.
In addition, it has an investment commitment in the amount of approximately NIS 1.2 billion as at December 31, 2023, compared with a total of approximately NIS 1.4 billion as at December 31, 2022.
The increase in the volume of investments in recent years constitutes the implementation of the strategy of the Bank to increase the scope of investments executed at Poalim Equity, subject to market conditions, within a multi-year trajectory for investments through 2025 approved by the Board of Directors of the Bank.
The contribution of Poalim Equity to the results of operations of the Bank in 2023 amounted to net profit of approximately NIS 100 million, compared with net profit in the amount of approximately NIS 91 million in 2022.
The Bank's investment in Poalim Equity (in capital and other means) totaled NIS 4.7 billion as at December 31, 2023, compared with NIS 3.8 billion at the end of 2022.

3. Review of risks

Some of the information in this section, even if it is based on processing of historical data, constitutes forward-looking information, as defined in the Securities Law and as detailed in Section 1.1 above.
Additional information regarding risks is available in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2023 (hereinafter: the "Report on Risks").

3.1. General description of risks and risk management

The Bank performs a comprehensive examination to assess the risks to which it is exposed and the materiality of such risks. Within the ICAAP (Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, compliance risk, and model risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk (which may materialize via credit risks, investment risks, market risks, and more), and environmental risk (including climate risk).
The risk-management strategy of the Bank Group is designed to support the achievement of the strategic objectives of the Group as a whole, while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible function at all levels of the organization. Risk management at the Bank is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting informed risk-taking in order to maximize the Group's profitability at a risk level aligned with its risk appetite.

The risk management structure and organization described in this section are applicable to all types of risks and to all units of the Bank. Each type of risk is addressed further, separately, as relevant, later in this section. Additional information is available in the Report on Risks.

3.1.1. Risk governance and risk management method

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches in New York, with due attention to the activity of subsidiaries with exposure significant for the Group. The subsidiaries are instructed to manage risks based on the strategy and policy of the Group, with adjustments according to the circumstances, which are reported to the parent company. Risks are managed separately by each company in the Bank Group, according to policy formulated by each company's board of directors. The Bank manages the various risks while hedging some risks. The Banking Supervision Department has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the requirements of the Banking Supervision Department for the management of the various risks to which a banking corporation is exposed, and stipulate fundamental principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the identification and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function. The Bank operates in accordance with the guidelines of the Banking Supervision Department.

Risk control and the assessment of financial risks and operational risks are performed based on a uniform methodology at the Group level, under the direction of the Risk Management Division, taking into account the unique characteristics of the activity of each company. Any risks in new products or processes are identified through an orderly procedure, based on the policy for the launch of new products and processes. Models used to assess risks are tested prior to implementation and periodically, based on the Bank's model validation policy.

The approach taken with regard to control of all financial and operational risks at the Bank involves identification and assessment of the risks, and control of compliance with risk-appetite limits and with additional limits stipulated in the various internal regulations, through three lines of defense:

1. The first line of defense includes the business units within the divisions, including supporting and operational divisions, that create or take risks, as well as the internal control units within the divisions that provide internal control over the risk creators and risk takers. The management of the business line bears the primary responsibility for routine risk management, aimed at managing risks while striving to achieve strategic goals and business objectives, within the established risk appetite and in accordance with the internal risk regulations and regulatory directives. Controls in the first line of defense are formalized in working procedures.

2. The second line of defense consists of the control units at the Risk Management Division, which is independent of the business divisions. This line is also responsible for presenting an overview of risks; formulating methodologies for risk assessment and for economic capital allocation; independent risk assessment; analysis of the congruence of products and activities with the risk-appetite framework and risk capacity established by the Board of Directors; and validating models. The second line of defense contains additional independent control functions, such as accounting and legal counsel.
3. The third line of defense consists of Internal Audit, which operates independently and objectively. Its purpose is to improve the activity of the organization and help it achieve its goals, including through supervision to ensure compliance with the directives of the law and regulation, implementation of the guidelines of the Board of Management and Board of Directors, and challenging and recommending improvement, from a focused and forward-looking perspective. Internal Audit operates under laws, regulations, international standards, guidelines of the Institute of Internal Auditors in Israel, guidelines of the Board of Directors' Audit Committee and of the Board of Directors, and management needs.

The Board of Directors of the Bank is responsible for delineating the overall risk-management strategy and supervising the risk-management framework of the Group, directly or through the Risk Management and Control Committee. Main duties of the Board of Directors in the area of risk management are:

- Establishing the risk appetite and risk capacity framework of the Group.
- Approving a risk-management policy consistent with the risk-appetite framework, including the establishment of risk limits in the various areas of activity and main risk areas.
- Approving the control concept framework for the Group and ensuring that it meets risk-management needs.
- Providing clear guidance to senior management with regard to risk management, based on the recommendations of the Board of Management Risk Management Committee, headed by the CEO, and ensuring that senior management takes the necessary actions in order to identify, measure, monitor, and control risks.
- Approving methodologies for risk assessment and control, and for the allocation of economic capital in respect of risks.
- Supervising and monitoring the implementation of the established risk-management policy; examining the actual risk profile, including at the level of the Group; and examining the processes and actions that the Bank must apply in order to comply with all regulatory directives concerning risk management.

Board of Directors' Committee on Risk Management and Control – The committee's mission is to make recommendations and assist the plenum of the Board of Directors in formulating the Bank's risk-management policy, including establishing risk limits in the various areas of activity, examining the Bank's risk profile, monitoring the implementation of the established risk-management policy, and examining the processes and actions to be implemented by the Bank in order to comply with all regulatory directives concerning risk management. The Board of Directors' Committee on Risk Management and Control and the **plenum of the Board of Directors** receive reports on risks and on the execution of approved policies at least once each quarter.

US Risk Management Subcommittee – The committee's mission is to supervise risk-management policy in the Bank's activity in the United States. The subcommittee examines the risk-management policy of the Bank's activity in the United States, and ascertains that the Bank's activity in the United States is conducted within the bounds of the established risk-management policy.

Additional committees of the Board of Directors are engaged in matters related to risk management, primarily including the Audit Committee, the Committee for Monitoring the Implementation of the Resolutions with the United States Authorities, and the Corporate Governance and Stakeholders Committee.

The Board of Management of the Bank, including the managements of the divisions, is responsible for formulating, instilling, and implementing the risk-management framework of the Group, directly or through committees acting on its behalf. Main duties of the Board of Management in the area of risk management:

- Designing a risk-management policy consistent with the risk-appetite framework established by the Board of Directors, including risk limits in the various areas of activity and main risk areas, and submitting this policy to the Board of Directors for approval.
- Establishing guidelines and risk limits aligned with the policy, appropriate work methods for risk assessment, and decision-making processes based on an analysis of return/business benefit versus risk, and receiving the appropriate reports, while ensuring compliance with risk-management policy objectives.
- Ensuring the existence of an internal process for capital assessment and for setting capital targets consistent with the risk profile of the corporation and with its control environment.
- Ensuring the existence of adequate resources for risk management at the Bank, including a framework of internal controls, and the existence of independent, effective, comprehensive control and reporting systems for risks.

Board of Management Committee on Risk Management and Compliance, headed by the CEO – Responsible for designing the Bank's risk-management policy, risk limits, and reporting and control procedures, and for examining the Bank's overall risk profile, including the various risk types and factors to which the Bank is exposed.

Additional committees of the Board of Management operate in specific areas of risk, subject to the risk policies and limits established by the Board of Directors and the Board Committees. Committees have also been established that convene under certain conditions, including the Financial Crises Committee and the Banking Emergency Committee. These committees convened at the outbreak of the Swords of Iron War, and have continued to convene as needed. For further details, see the section "Impacts of the Swords of Iron War."

The Chief Risk Officer (CRO) and the member of the Board of Management responsible for the Risk Management Division is Ms. M. Ben Shushan Cohen.

Financial risks are managed by designated members of the Board of Management and under their responsibility.

The principal members of the Board of Management responsible for managing credit risks are the Head of Corporate Banking, Mr. I. Furman, and the Head of Retail Banking, Ms. D. Raviv.

The member of the Board of Management responsible for managing market, investment, and liquidity risks is the Head of Financial Markets and International Banking, Mr. Y. Antebi.
Legal risk is managed by Attorney Y. Almog, Chief Legal Advisor.
Technological risk, including cyber risk, is managed by Ms. E. Ben-Zeev, Head of Information Technology.
Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.

Risk Management Division – The activities and responsibilities of the division are consistent with Proper Conduct of Banking Business Directive 310. The main objectives of the division are: to instill an advanced culture of risk management and monitoring at the Bank Group, supporting risk-taking in an informed manner, with the aim of maximizing the profitability of the Group at a risk level aligned with its risk appetite; to establish risk-management and compliance policies at the level of the Group, in line with the goals of the Group and with the requirements of the Basel Committee and of relevant regulation; and to examine and monitor the overall risk profile of the Bank and its congruence with the risk appetite set by the Board of Directors. Towards that end, the division develops and implements comprehensive and quantitative risk-assessment methodologies and models, which are also used to calculate economic capital.
The division ensures the existence and quality of the key risk-management processes of the Group: identification and assessment of risks; establishment of risk capacity and risk appetite; and establishment of mechanisms for control, monitoring of risks, and reporting. The division leads and coordinates the ICAAP (the annual Internal Capital Adequacy Assessment Process, taking risks into account) and is involved in capital ratio management processes. The division comprises four units, headed by the head of the division, who has the rank of a Member of Management: (1) the Credit Risk Management Unit, (2) the Operational and Market Risk Management Unit, (3) the Chief Compliance Officer and Securities Enforcement Unit, and (4) the Risk Integration Unit.
In general, reports of the Risk Management Division submitted to the Board of Directors' Committee on Risk Management and Control for discussion are also submitted to the plenum, as a written report or for discussion, as relevant. Pursuant to the policy of the Bank, the risk reporting system has been established in a manner that allows effective communication both across the Group and to higher levels of the management chain. The purpose of the reports is to escalate sensitive issues or weaknesses with the potential to cause risk; the reports are performed both on an individual basis and cumulatively, up to the level of the Group as a whole. The reporting system includes the presentation of weaknesses or limitations in risk estimates, as well as significant assumptions on which the estimates are based, and includes routine reports and ad-hoc reports according to need.

The Risk Management Division also operates several committees, headed by the Chief Risk Officer:
Board of Management Steering Committee on Credit Policy – The committee formulates the credit policy of the Bank.

Board of Management Committee on Credit Review – The committee discusses credit review reports prepared for major borrowers of the Bank and for risk-based samples of the overall credit portfolio of the Bank, and examines the reliability of the credit rating and the appropriateness of the classifications and allowances of the Group.

Board of Management Committee on Debt Classification and Determination of the Provision for Credit Losses – The committee is engaged in formulating methodology for the collective allowance, formulating policy for classifications and individual allowances, classifying credit, and determining individual allowances for credit losses, subject to the hierarchy of authority.

Model Risk Management Committee – The committee formulates the model risk governance framework, manages model risk within the risk appetite, and ensures congruence with model policy and governance. The committee validates models managed in both the first and second lines.

Additional committees include the Regulatory Investment Prioritization Committee, the Monitoring and Improvement of Enterprisewide Control Aspects Committee, the Board of Management Committee on Compliance and Legal Risk Management, and the New York Risk Management Committee.

For more extensive information regarding risk management, see further details in this section and in the Report on Risks.

3.1.2. Risk appetite

Risk appetite is a key tool for linking the organization's strategy, capital allocation, and risk management. The Board of Directors establishes the risk-appetite framework, taking into consideration the recommendations of the Chief Executive Officer, the Chief Risk Officer, and the Chief Financial Officer. The risk appetite is translated into targets and limits for the business lines. The risk-appetite framework includes policies, processes, controls, and systems used to implement, communicate, and supervise risk appetite. The risk-appetite framework includes a statement of risk appetite and risk capacity, risk limits, and outlines of the responsibilities of those charged with the implementation and control of the risk-appetite framework. The risk-appetite framework refers to the material risks to the Bank, and establishes the risk profile in alignment with the Bank's business strategy and risk capacity. An effective risk-appetite framework provides a shared structure and means for senior management and the Board of Directors to communicate, understand, and evaluate the level of risk that they are willing to accept. The framework defines the boundaries within which the Board of Management is expected to operate in order to realize the business strategy of the Bank.

The framework includes the following main components:

Risk appetite statement: A written formulation of the extent and types of aggregate risk which the Bank is interested in bearing in order to achieve its business objectives, including appropriate reports, as well as quantitative metrics of profits, capital, risk indicators, liquidity, and other relevant means, as necessary.

Risk capacity: The maximum level of risk that the Bank is able to sustain without diverging from capital limits relevant to stress scenarios, including from the perspective of shareholders and customers. Compliance with the risk capacity shall be examined, among other matters, by applying stress tests designed to estimate the impact on the Bank's profit and capital adequacy as a result of the materialization of a stress scenario.

Risk appetite: The maximum total aggregate risk that the banking corporation is willing to bear, within its defined risk capacity, in order to achieve its business objectives in accordance with the strategic plan, under various constraints (such as sources of capital and liquidity, regulatory requirements, risk/return characteristics, etc.).
Risk limits: Quantitative indicators based on forward-looking assumptions, which give practical expression to the aggregate risk-appetite statement of the Bank.

3.1.3. Stress scenarios

In order to understand the possible implications of various shocks for the financial robustness of the Bank, both given the existing balance sheet and upon the materialization of work plans and other business intentions, a process of stress testing is carried out. Three types of scenarios are examined at the Bank for this purpose: comprehensive systemic scenarios applied to the entire Bank Group; reverse scenarios; and single-factor scenarios applied at the level of a sector, transaction, borrower, or portfolio, in certain cases, according to predefined thresholds. The Bank adapts the various scenarios and their characteristics to financial, political, and environmental developments in Israel and globally. In addition, the Bank implements the directives of the Bank of Israel and applies the uniform stress test established by the Banking Supervision Department, when required.
Goals of analysis of stress scenarios:

- Identification of risk concentrations and potential weaknesses in the Bank's portfolio;
- Examination of the effect of strategic decisions of the Bank;
- Integration in the planning process and examination of the effects of the business plan on potential exposures;
- Examination of the financial robustness of the Bank and evaluation of the potential damage that may be caused by extreme events of various types;
- Analysis of the sensitivity of the Bank to shocks or exceptional but possible events;
- Assessment of the materiality of the various risks;
- Examination of the Bank's compliance with its risk appetite and risk capacity, and breakdown of risk appetite by division;
- Support for the business divisions in understanding the risk map of the various areas of activity and sectors;
- Support for the ICAAP and for the formulation of contingency plans in order to minimize the damage of extreme events.

Assumptions, methodology, and results are discussed and approved by the Stress Scenarios and Risk Concentrations Committee and in meetings of the Board of Management and committees of the Board of Directors.

Capital management takes the results of various stress tests into consideration, in several ways: first, the capital target and the business plan of the Bank are determined in view of the risk capacity, which establishes the minimum capital adequacy that the Bank is willing to reach in the event of a stress scenario. Second, capital planning includes contingency plans which the Bank can activate if a stress scenario materializes, in order to improve its capital adequacy. Stress scenarios are tested for each planning year, given the capital targets and expected capital ratio, in order to ascertain that the capital planning ensures compliance with the risk capacity throughout the years of the plan. The Bank also examines the effect of a moderate stress scenario, primarily consisting of changes in the financial markets, including changes in interest rates, spreads, exchange rates, and more, on the capital-adequacy ratio, in order to measure and limit the potential erosion of the capital-adequacy ratio. In liquidity management, the Bank examines internal and regulatory liquidity scenarios.

3.2. Credit risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement.

The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.

Activities that create credit risk include:

- **Balance sheet exposures –** Present liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (positive fair value) of derivatives and financial instruments.
- **Off-balance sheet exposures –** Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit, unutilized credit facilities, and potential liabilities arising from changes in the value of transactions in derivative financial instruments.

The credit risk arising from transactions in derivative financial instruments is defined as counterparty risk, which is the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. For information regarding counterparty credit risk and the management thereof, see the Report on Risks.

Another risk arising from the portfolio of credit exposures is concentration risk. Concentration risk arises from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

3.2.1. Management of credit risks

The goal of credit-risk management is to allow the Group to operate, and to ensure that it operates, in accordance with the policies and strategic objectives established and within the risk appetite defined in the area of credit, from the level of the single transaction to the overview of the credit portfolio.

The Bank's credit risk management policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio among different sectors of the economy, a large number of borrowers, different linkage segments, and different geographical regions overseas. The policy of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Bank conducts industry-level surveys and economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Bank's business objectives are determined in accordance with these surveys and studies.

The credit management system monitors customers' credit exposure. Credit review systems identify, monitor, and report to the responsible function and to managers on negative indications related to borrowers.

Credit-risk management is based on principles including the following:

- **Independence –** The principle of independence is an essential element of proper corporate governance, in order to prevent conflicts of interest and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.
- **Hierarchy of authority –** The Bank has a hierarchy of authority that outlines a sequence of credit authorizations, according to the level of debt of the borrower or group, the risk rating, and problematic debt classifications, allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committees, as well as the composition of such committees.
- **Comprehensive view of the customer/group –** Management of risk groups encompassing several borrowers who are related in terms of risk, such as a company and its subsidiaries, a married couple, etc. The activity of customers and groups is overseen by a customer manager who is responsible for all activities of that borrower/group. Information systems continuously provide customer managers and their staff with a comprehensive view of the activity of the customer/group, including the level of credit risk, and in accordance with Proper Conduct of Banking Business Directive 313.
- **Credit policies and procedures –** The Board of Directors of the Bank sets forth the credit policy, which is examined and updated routinely, according to changes in the financial markets and in the economy. This policy includes various limits on the credit portfolio, in accordance with the risk appetite of the Bank, including exposure limits by economic sector, country, or financial institution, as a function of the risk level assessed by the Bank. Limits are also imposed on the maximum exposure to a single borrower, according to the credit rating assigned to the borrower, which reflects the borrower's risk level, as well as a maximum limit for a group of borrowers.

Credit policy includes the credit risk management policy of the corporation; it formalizes and defines the rules applicable to all parties at the Bank involved with credit risk, and is designed to serve the business goals of the Bank, in alignment with its risk policy and risk appetite, and in compliance with regulatory directives.

Credit policy documents delineate the aspects relevant to each division (customer type, economic sector, purpose of the loan, etc.), taking risk levels into consideration.

Adherence to the guidelines of the credit policy in carrying out business operations allows rational management of credit and credit exposures, and serves as a tool for the management of credit risks.

The credit policies and procedures are binding for everyone involved in the area of credit at the Bank. The policy specifies the principles and considerations related to credit granting, the authority to grant credit, prohibitions and limits applied to credit granting, and the internal regulations that establish the Bank's practices and principles in the areas of credit and collateral.

The Board of Management is also authorized to establish temporary orders stricter than the parameters in the credit policy of the Bank.

The Risk Management Division is responsible for the overall policy of the Bank, and for formulating and coordinating the policies of the business units.

- **Controls and risk identification –** The process of reviewing and identifying credit risks is conducted by the three lines of defense. Controls are applied from the level of each individual credit item to the level of the portfolio, in the first and second lines of defense, according to materiality thresholds. The Credit Risk Management Unit leads and coordinates reports to the Board of Management and Board of Directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, stress scenarios, and presentation of general risk indicators, in Israel and globally.

  In the third line of defense, Internal Audit is responsible, among other matters, for reviewing the implementation and effectiveness of risk-management procedures and risk-assessment methodologies, including the implementation of risk management and control policies at the Bank.

  The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various levels. The identification of risk in new products relies on the policy for new products, which specifies the processes to be followed for each new product at the Bank in order to identify all risks involved in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

  A quarterly and annual process has been designed in order to identify risk concentrations and examine the potential implications of various shocks (financial, political, and others) for the financial robustness of the Bank. This process includes definition, examination, and reporting of the results of stress scenarios, and mapping of the effects on profit and on capital adequacy.

- **Credit risk is quantified and measured on several levels -** The level of the individual borrower, borrower groups by area of activity, sectors of the economy, borrower segments, products, and the overall portfolio of the Bank and of the Group. Processes for risk quantification and measurement and for the ranking of borrowers and of credit have been developed and implemented for each area of activity and type of credit. These processes combine assessments by credit experts with decision-making processes and advanced statistical models.
- **Identification and treatment of borrowers in distress –** The Bank has established procedures for the identification and treatment of borrowers who, according to the Bank's evaluation, may default on their obligations to the Bank. The Credit Analysis Department and the Credit Review Department in the Risk Management Division determine, in the opinion they prepare, whether the specific customer should be included in the Bank's watch list, whether the customer's condition requires classification as problematic debt, and whether an individual allowance for credit losses is necessary. Customers identified for a watch list are discussed as part of the process of examining the fairness of classifications each quarter. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by reducing credit risk from the borrowers' resources and/or by obtaining additional collateral from them. In certain cases, customers are transferred to a unit specializing in monitoring and restructuring of customers' debt, or to debt collection units. In addition, the Bank regularly reviews the level of credit risk in borrower portfolios on the basis of conservative assumptions, classifies problematic credit risk according to the directives of the Bank of Israel (non-accruing, substandard, or special mention), and includes a sufficient allowance for credit losses in the financial statements in respect of the total credit risk at the Bank.
- **Uniform instruction and training –** Employees involved in the area of credit undergo training and instruction on credit, foreign trade, and mortgages. These sessions provide a uniform knowledge base to all those involved in this area, imparting professional tools and teaching the Bank's policies and principles in the area of credit. Lessons-learned processes based on various credit events are conducted by the units and communicated to the relevant functions, in accordance with the internal regulations of the Bank.
- **Hedging and risk mitigation –** The Bank manages credit collateral using a collateral system with safety margins that are conservative relative to the safety margins required under the Basel directives, which reduce the value of collateral based on the risk of decline in value and rapid realization. In this sense, the Pillar 1 capital requirement is conservative and does not take a considerable part of the collateral provided against exposures into account. Concurrently, analysis of the composition of the Bank's collateral portfolio indicates that the collateral is highly diversified. This diversification reduces the probability of a sweeping decline in the value of collateral. Additional tools are used to hedge and mitigate risk, such as credit sales and the acquisition of insurance.

- **Method of determining the collective allowance**

  The calculated allowance for current expected credit losses is estimated on a collective basis, (excluding borrowers regarding which the Bank has not identified common risk characteristics with other borrowers, for which the allowance is calculated on an individual basis. Each quarter, a process is conducted to identify customers with problematic potential, based on defined criteria, and all borrowers on watch lists and/or classified as problematic are reviewed. The adequacy of the classification and allowance is reviewed for customers examined individually according to the policy of the Bank. In cases in which the customer's situation has changed, changes have occurred in collateral, and/or collection has been performed, the need to update the classification and allowance is examined.

  The collective allowance for credit losses is calculated based on the expected loss over the lifetime of the credit. In addition, the estimate of the allowance for credit losses involves significant use of forward-looking information, which reflects reasonable, supported forecasts of future economic events. The Bank estimates current expected credit losses using an advanced method based on an economic estimate of the lifetime expected loss, through an estimate of the components of the credit loss: probability of default (PD), loss given default (LGD), and the balance of credit, taking into account repayments and future utilization of off-balance sheet credit facilities (exposure at default – EAD), including macroeconomic adjustments and adjustments in respect of qualitative factors.

  Data in this method are primarily based on existing internal information at the Bank; in cases of information limitations, expert evaluations were included.

  Macroeconomic adjustments are based on forecasts of the Bank regarding macroeconomic parameters including unemployment rates, the consumer price index, the housing price index, gross national product, private consumption, and average wages.

  Adjustments to the model in respect of qualitative factors refer, among other matters, to political and environmental attributes; rapid growth in credit; lending policies and procedures of the Bank, including changes in lending strategy; underwriting processes; and additional factors.

For additional information regarding credit risk and the management thereof, see the Report on Risks.

3.2.2. Analysis of credit quality and problematic credit risk

Table 3-1: Analysis of credit quality, problematic credit risk, and nonperforming assets of the public

	Balance as at December 31, 2023				Balance as at December 31, 2022			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
	NIS millions							
Credit risk at credit execution rating[1]								
Balance sheet credit risk	**240,406**	**130,097**	**31,149**	**401,652**	227,425	126,794	31,816	386,035
Off-balance sheet credit risk	**152,115**	**6,386**	**21,858**	**180,359**	141,411	7,162	17,834	166,407
Total credit risk at credit execution rating	**392,521**	**136,483**	**53,007**	**582,011**	368,836	133,956	49,650	552,442
Credit risk not at credit execution rating								
A. Non-problematic – balance sheet	**5,031**	**711**	**2,847**	**8,589**	6,617	730	2,649	9,996
B. Total problematic[2]	**6,946**	**755**	**689**	**8,390**	5,169	581	668	6,418
Problematic accruing	**3,911**	**-**	**467**	**4,378**	2,515	-	458	2,973
Problematic non-accruing	**3,035**	**755**	**222**	**4,012**	2,654	581	210	3,445
Total balance sheet credit risk not at credit execution rating	**11,977**	**1,466**	**3,536**	**16,979**	11,786	1,311	3,317	16,414
Off-balance sheet credit risk not at credit execution rating	**2,338**	**4**	**178**	**2,520**	2,930	7	149	3,086
Total credit risk not at credit execution rating	**14,315**	**1,470**	**3,714**	**19,499**	14,716	1,318	3,466	19,500
Of which: debts accruing interest income past due by 90 days or more	**309**	**-**	**87**	**396**	39	-	44	83
Total overall credit risk of the public	**406,836**	**137,953**	**56,721**	**601,510**	383,552	135,274	53,116	571,942
Additional information regarding total nonperforming assets								
A. Non-accruing debts	**3,035**	**755**	**222**	**4,012**	2,653	581	210	3,444
B. Assets received in respect of discharged credit	**3**	**-**	**-**	**3**	2	-	-	2
Total nonperforming assets of the public	**3,038**	**755**	**222**	**4,015**	2,655	581	210	3,446

(1) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(2) Non-accruing, substandard, or special mention credit risk.

Note:
Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

In 2023, an increase occurred in the volume of total credit risk at credit execution rating and in its percentage of total credit risk, for the Bank overall. A breakdown by segment indicates stability in the percentage of credit to private individuals, a slight decrease in housing credit, and an increase in commercial credit.

Table 3-2: Additional information regarding changes in non-accruing credit to the public

	For the year ended December 31, 2023		
	Commercial	Private*	Total
	NIS millions		
Changes in non-accruing credit to the public			
Balance of non-accruing debts at beginning of year	**2,653**	**791**	**3,444**
Debts classified as non-accruing during the year	**1,550**	**1,120**	**2,670**
Debts that resumed accruing interest income during the year	**(42)**	**(529)**	**(571)**
Debts charged off	**(384)**	**(282)**	**(666)**
Debts repaid	**(705)**	**(123)**	**(828)**
Other**	**(37)**	**-**	**(37)**
Balance of non-accruing debts at end of year	**3,035**	**977**	**4,012**
Change in balance of non-accruing troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	**1,100**	**213**	**1,313**
Restructured during the year	**296**	**330**	**626**
Troubled debt restructurings charged off	**(140)**	**(181)**	**(321)**
Troubled debt restructurings that resumed accruing interest income during the year	**(41)**	**(113)**	**(154)**
Troubled debt restructurings repaid	**(304)**	**(24)**	**(328)**
Balance of non-accruing troubled debt restructuring at end of year	**911**	**225**	**1,136**

* Including housing loans.
** Net asset balances in respect of a subsidiary that has been sold.

Table 3-2: Additional information regarding changes in non-accruing credit to the public (continued)

	For the year ended December 31, 2022		
	Commercial	Private*	Total
	NIS millions		
Changes in non-accruing credit to the public			
Balance of non-accruing debts at beginning of year	2,970	647	3,617
Adjustment of opening balance of non-accruing credit for effect of initial implementation of CECL	(82)	420	338
Debts classified as non-accruing during the year	850	831	1,681
Debts that resumed accruing interest income during the year	(224)	(751)	(975)
Debts charged off	(182)	(71)	(253)
Debts repaid	(679)	(285)	(964)
Balance of non-accruing debts at end of year	2,653	791	3,444
Change in balance of non-accruing troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	1,529	623	2,152
Adjustment of opening balance of non-accruing credit in troubled debt restructuring for effect of initial implementation of CECL	(80)	(171)	(251)
Restructured during the year	130	242	372
Troubled debt restructurings charged off	(86)	(88)	(174)
Troubled debt restructurings that resumed accruing interest income during the year	(192)	(316)	(508)
Troubled debt restructurings repaid	(201)	(77)	(278)
Balance of non-accruing troubled debt restructuring at end of year	1,100	213	1,313

* Including housing loans.

Table 3-3: Credit risk indicators

	As at							
	December 31, 2023				December 31, 2022			
	Commercial	Private individuals – housing loans	Private individuals – other	Total	Commercial	Private individuals – housing loans	Private individuals – other	Total
Analysis of quality of credit to the public								
Non-accruing credit as a percentage of the balance of credit to the public	**1.22%**	**0.57%**	**0.64%**	**0.97%**	1.15%	0.45%	0.60%	0.87%
Balance of credit to the public, non-accruing or past due by 90 days or more, as a percentage of the balance of credit to the public	**1.35%**	**0.57%**	**0.89%**	**1.06%**	1.17%	0.45%	0.72%	0.89%
Problematic credit as a percentage of the balance of credit to the public	**2.80%**	**0.57%**	**1.99%**	**2.02%**	2.24%	0.45%	1.90%	1.63%
Credit not at credit execution rating as a percentage of the balance of credit to the public	**6.85%**	**1.11%**	**10.19%**	**5.31%**	5.10%	1.02%	9.44%	4.16%
Analysis of provision for credit losses in the reported period								
Provision for credit losses as a percentage of the average balance of credit to the public	**0.58%**	**0.09%**	**1.09%**	**0.47%**	(0.08%)	0.06%	0.11%	(0.02%)
Net charge-offs as a percentage of the average balance of credit to the public	**0.07%**	**0.01%**	**0.56%**	**0.09%**	(0.05%)	-	0.07%	(0.03%)
Analysis of allowance for credit losses in respect of credit to the public								
Total allowance for credit losses* as a percentage of credit to the public	**2.50%**	**0.48%**	**3.21%**	**1.92%**	2.17%	0.41%	2.64%	1.64%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public	**2.14%**	**0.45%**	**3.11%**	**1.69%**	1.80%	0.38%	2.55%	1.40%
Allowance for credit losses as a percentage of the balance of non-accruing credit to the public	**175.3%**	**78.5%**	**486.5%**	**174.3%**	156.4%	83.8%	427.1%	160.7%
Allowance for credit losses as a percentage of the balance of credit to the public, non-accruing or past due by 90 days or more	**159.1%**	**78.5%**	**349.5%**	**158.7%**	154.2%	83.8%	353.2%	156.9%
Ratio of allowance for credit losses to net charge-offs	**29.9**	**74.1**	**5.5**	**18.4**	(34.6)	243.5	39.0	(58.3)

* Including the allowance in respect of off-balance sheet balances.

Note:
The rates calculated above refer to provisions in respect of credit to the public only, without credit losses in respect of banks and governments.
Credit to the public – before deduction of the allowance for credit losses.

Portfolio quality analysis

Credit risk indicators have worsened. Some of the indicators are influenced by the increase in the collective allowance, which reflects the future effects of worsening economic conditions. However, indicators such as the percentage of problematic debt, the percentage of non-accruing debt, and the percentage of credit not at credit execution rating have also worsened, and the percentage of past-due balances increased, particularly in the fourth quarter of 2023. In addition, the percentage of net charge-offs rose, mainly in the segment of private individuals.

Effects of the Swords of Iron War on the collective allowance

The Swords of Iron War is expected to cause damage to the economic environment, which is likely to lead to an increase in the level of credit risk. However, uncertainty is high with regard to the development and scope of the fighting and the extent of its effect on the various economic sectors. The Bank is examining various scenarios, as part of its preparations in this area. Forecasts reflecting the effect of this situation on credit risk were taken into consideration in calculating the collective allowance.

The collective allowance for credit losses included in the financial statements is based on weighting of the effect of three forecasts: baseline, optimistic, and pessimistic. Macroeconomic forecasts in the financial statement for the third quarter of 2023 were revised to reflect the effects of the war, and expressed a material effect on economic conditions. These forecasts were updated according to actual developments and current expectations. According to the baseline forecast, economic activity declined sharply, primarily in the fourth quarter of 2023. Taking into consideration employees on unpaid leave, estimates indicate that the unemployment rate will rise. Post-war recovery is expected to be slow relative to the growth potential of the economy, influenced by the deterioration of fiscal conditions and weakness in two key economic sectors: high-tech and real estate. The assumption is that the trajectory for the reduction of the interest rate over the course of 2024 will be similar to estimates from before the war. The forecasts used to calculate the collective allowance in relation to decreases in prices in the real-estate market remain in effect, after worsening in the preceding quarter due to the outbreak of the war. The overall collective allowance reflects these effects and stands at approximately NIS 7.1 billion as at December 31, 2023, compared with approximately NIS 5.7 billion as at December 31, 2022.

For the purpose of analysis of the sensitivity of the collective allowance to different assumptions, the calculation of the collective allowance in respect of the portfolio in Israel based solely on the pessimistic forecast would lead to an increase of approximately NIS 0.74 billion, beyond the allowance included in these financial statements, and the calculation of the collective allowance based solely on the optimistic forecast would lead to a decrease of NIS 0.65 billion in the collective allowance. This range indicates the level of uncertainty with regard to the effect of the state of war on the credit portfolio of the Bank. It is emphasized that the pessimistic forecast does not constitute a stress scenario.

Table 3-4: Composition of the allowance for credit losses

	Allowance for credit losses			
	Individual	Collective		Total
		Housing credit	Other	
	NIS millions			
Composition of the allowance as at December 31, 2023:				
In respect of credit to the public	**798**	**593**	**5,603**	**6,994**
In respect of debts other than credit to the public	**-**	**-**	**39**	**39**
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	**112**	**39**	**805**	**956**
Allowance for credit losses as at December 31, 2023	**910**	**632**	**6,447**	**7,989**
Composition of the allowance as at December 31, 2022:				
In respect of credit to the public	623	487	4,425	5,535
In respect of debts other than credit to the public	-	-	46	46
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	169	32	734	935
Allowance for credit losses as at December 31, 2022	792	519	5,205	6,516

Each quarter, a process is conducted to identify customers with problematic potential, based on defined criteria, and all borrowers on watch lists and/or classified as problematic are reviewed. The adequacy of the classification and allowance is reviewed for customers examined individually according to the policy of the Bank. In cases in which the customer's situation has changed, changes have occurred in collateral, and/or collection has been performed, the classification and allowance are updated.

The allowance for credit losses increased by approximately NIS 1.5 billion in 2023. The increase mainly resulted from the collective allowance, influenced by economic conditions and macroeconomic forecasts, in view of the increase in the interest rate and the effects of the war. Concurrently, the individual allowance increased. The overall allowance for credit losses as a percentage of credit to the public rose from 1.64% at the end of 2022 to 1.92% at the end of 2023.

3.2.3. Classification and analysis of credit risk by economic sector

Table 3-5: Credit risk by economic sector

	December 31, 2023, and the year then ended						
					Credit losses[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Of which: non-accruing credit risk	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	**31,673**	**30,518**	**665**	**196**	**54**	**(3)**	**389**
Construction and real estate – construction	**106,772**	**103,852**	**2,136**	**936**	**300**	**22**	**1,113**
Construction and real estate – real-estate activities	**42,209**	**41,097**	**664**	**58**	**362**	**(18)**	**1,014**
Commerce	**39,221**	**37,454**	**684**	**397**	**246**	**40**	**533**
Financial services	**54,691**	**54,505**	**14**	**6**	**42**	**5**	**219**
Other business services	**16,558**	**15,491**	**175**	**96**	**69**	**40**	**275**
Public and community services	**9,684**	**9,017**	**397**	**366**	**83**	**16**	**318**
Other sectors	**52,372**	**48,774**	**1,901**	**1,100**	**258**	**77**	**1,596**
Total commercial	**353,180**	**340,708**	**6,636**	**3,155**	**1,414**	**179**	**5,457**
Private individuals – housing loans	**137,284**	**135,831**	**749**	**749**	**117**	**8**	**622**
Private individuals – other	**56,460**	**52,752**	**691**	**223**	**376**	**193**	**1,111**
Total public – activity in Israel	**546,924**	**529,291**	**8,076**	**4,127**	**1,907**	**380**	**7,190**
Total banks in Israel and government of Israel	**87,731**	**87,731**	**-**	**-**	**1**	**-**	**2**
Total activity in Israel	**634,655**	**617,022**	**8,076**	**4,127**	**1,908**	**380**	**7,192**
Total public – activity overseas	**54,586**	**52,720**	**1,554**	**554**	**(25)**	**1**	**769**
Banks and governments overseas	**53,235**	**53,162**	**-**	**-**	**(4)**	**-**	**28**
Total activity overseas	**107,821**	**105,882**	**1,554**	**554**	**(29)**	**1**	**797**
Total activity in Israel and overseas	**742,476**	**722,904**	**9,630**	**4,681**	**1,879**	**381**	**7,989**

(1) Balance sheet credit risk and off-balance sheet credit risk,[3] including in respect of derivative instruments. Includes debts,[2] bonds, securities borrowed or purchased under agreements to resell, credit risk in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 425,564; 122,703; 4,723; 2,211; and 187,275 million, respectively.

(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

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

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

(6) Balance sheet and off-balance sheet non-accruing, substandard, or special mention credit risk.

Table 3-5: Credit risk by economic sector (continued)

	December 31, 2022, and the year then ended						
					Credit losses[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Of which: non-accruing credit risk	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	31,481	30,570	487	157	70	(23)	335
Construction and real estate – construction	101,927	99,490	1,007	610	(165)	(79)	834
Construction and real estate – real-estate activities	36,900	36,325	109	72	173	(56)	635
Commerce	39,133	37,566	582	242	(23)	5	323
Financial services	51,736	51,521	29	22	(128)	(4)	184
Other business services	17,243	15,949	252	116	84	13	247
Public and community services	9,089	8,403	407	387	57	6	246
Other sectors	50,870	46,811	1,781	1,205	(364)	(3)	1,429
Total commercial	338,379	326,635	4,654	2,811	(296)	(141)	4,233
Private individuals – housing loans	134,643	133,342	572	572	72	2	515
Private individuals – other	52,896	49,437	670	211	40	22	927
Total public – activity in Israel	525,918	509,414	5,896	3,594	(184)	(117)	5,675
Total banks in Israel and government of Israel	70,004	70,004	-	-	1	-	1
Total activity in Israel	595,922	579,418	5,896	3,594	(183)	(117)	5,676
Total public – activity overseas	46,024	43,028	1,848	659	119	22	808
Banks and governments overseas	52,999	52,907	-	-	30	-	32
Total activity overseas	99,023	95,935	1,848	659	149	22	840
Total activity in Israel and overseas	694,945	675,353	7,744	4,253	(34)	(95)	6,516

(1) Balance sheet credit risk and off-balance sheet credit risk,[3] including in respect of derivative instruments. Includes debts,[2] bonds, securities borrowed or purchased under agreements to resell, credit risk in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 413,532; 103,369; 898; 2,753; and 174,393 million, respectively.

(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

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

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

(6) Balance sheet and off-balance sheet non-accruing, substandard, or special mention credit risk.

3.2.4. Construction and real estate

A considerable deceleration in activity was recorded in the real-estate sector, reflected in a low number of transactions, growth in the inventory of unsold homes, and slight price declines over the course of 2023. Following the outbreak of the Swords of Iron War, the number of transactions in October fell sharply, and was lower than the annual average, while the recovery in November was moderate, so that the volume of transactions remained low. In addition, difficulties in progress on projects due to labor shortages continue.
According to data from the Central Bureau of Statistics, the volume of transactions in new homes decreased steeply in 2023, by approximately 31% compared with 2022, and the inventory of unsold new homes grew to 68 thousand in December 2023, an increase of approximately 16.6 thousand homes compared with December of the preceding year.
Interest-rate increases have reduced households' ability to buy homes and lowered purchases by investors. Data of the Central Bureau of Statistics indicate a cumulative decrease of 4.2% in prices of new homes since September 2022, and a cumulative decrease of 1.6% in the index of overall prices of homes since March 2023 (before the beginning of the decrease in the index).
These data do not weigh in benefits sometimes granted at the time of purchase; therefore, actual decreases in prices may be greater.
The possible effects of the situation on the economic environment, as estimated at the report date, are reflected in the calculation of the collective allowance.

Table 3-6: Segmentation of credit risk in the construction and real-estate sectors in Israel, by customers' principal area of activity

	Balance as at December 31, 2023			
	Balance sheet credit risk	Off-balance sheet credit		Total credit risk
	Loans[1]	Unutilized credit facilities	Guarantees	
	NIS millions			
Corporate Banking Division				
Construction for commerce and services	**2,861**	**924**	**281**	**4,066**
Construction for industry	**318**	**29**	**60**	**407**
Residential construction	**34,393**	**18,569**	**[1]18,934**	**71,896**
Yield-generating properties	**29,910**	**6,553**	**926**	**37,389**
Other	**10,416**	**9,618**	**4,479**	**24,513**
Corporate Banking Division total	**77,898**	**35,693**	**24,680**	**138,271**
Retail Banking Division	**8,283**	**1,761**	**666**	**10,710**
Total activity in Israel	**86,181**	**37,454**	**25,346**	**148,981**

	Balance as at December 31, 2022			
	Balance sheet credit risk	Off-balance sheet credit		Total credit risk
	Loans[1]	Unutilized credit facilities	Guarantees	
	NIS millions			
Corporate Banking Division				
Construction for commerce and services	2,734	793	499	4,026
Construction for industry	361	86	45	492
Residential construction	30,677	17,591	[1]21,537	69,805
Yield-generating properties	26,365	4,607	796	31,768
Other	9,156	7,278	4,877	21,311
Corporate Banking Division total	69,293	30,355	27,754	127,402
Retail Banking Division	8,836	1,852	737	11,425
Total activity in Israel	78,129	32,207	28,491	138,827

(1) Includes balance sheet and off-balance sheet credit risk in respect of which insurance was acquired, mainly from foreign insurance companies, for the portfolio of credit for land. For further details, see the Report on Risks.

Overall credit risk in the construction and real-estate sectors in Israel totaled approximately NIS 149 billion as at December 31, 2023. The total balance of risk of credit to the public in the construction and real-estate sectors in Israel increased by approximately 7.3% over the course of 2023. Most of the exposure is at the Corporate Banking Division (mid-sized and large customers), at approximately 93% of total credit risk in the construction and real-estate sectors in Israel.

Exposure to companies operating primarily in the residential construction industry at the Corporate Banking Division constitutes approximately 52% of the exposure of the division to the construction and real-estate sector. Most financing for companies in this industry consists of financing of land for housing and financing of residential construction projects nationwide. Exposure to companies operating in the industries of construction of buildings for commerce and services, construction for industry, and yield-generating properties for rent at the Corporate Banking Division constitutes approximately 30% of the exposure of the division to the construction and real-estate sector.

Table 3-7: Analysis of credit quality in the construction and real-estate sectors in Israel

	Balance as at		Change
	December 31, 2023	December 31, 2022	
	NIS millions		
Credit risk at credit execution rating			
Non-problematic credit risk	**144,949**	135,815	6.7%
Credit risk not at credit execution rating			
Problematic accruing	**1,806**	434	316.1%
Non-accruing	**994**	682	45.7%
Problematic credit risk not at execution rating	**2,800**	1,116	150.9%
Non-problematic credit risk not at execution rating	**1,232**	1,896	(35.0%)
Total credit risk not at credit execution rating	**4,032**	3,012	33.9%
Total	**148,981**	138,827	7.3%

Total credit risk not at credit execution rating increased by 33.9% in 2023. Total credit risk not at credit execution rating as a percentage of total credit risk increased from 2.17% at the end of 2022 to 2.70% as at December 31, 2023; problematic debt as a percentage of total credit risk increased from 0.80% at the end of 2022 to 1.88% as at December 31, 2023; and non-accruing debt as a percentage of total credit risk increased from 0.49% at the end of 2022 to 0.67% as at December 31, 2023.

The increase in the percentage of balances not at credit execution rating, and particularly the significant increase in the percentage of problematic debt, was influenced by the changes in the economic environment. These changes point to an increase in the probability of worsening of portfolio quality, and accordingly, of a possible continued increase in the level of borrowers' credit risk in this area, which may be intensified by the war.

Table 3-8: Credit risk in the real-estate sector at the Corporate Banking Division in Israel, by financing rate (LTV) and absorption capacity[1]

	Balance as at December 31, 2023				
	Land	Real estate in construction processes[2]	Completed properties	Other	Total
	NIS millions				
Financing rate[3]					
Up to 45%	**2,796**	**-**	**6,064**	**-**	**8,860**
Over 45% up to 65%	**6,640**	**-**	**9,810**	**-**	**16,450**
Over 65% up to 80%	**17,322**	**-**	**6,621**	**-**	**23,943**
Over 80%	**2,059**	**-**	**773**	**-**	**2,832**
Absorption capacity[4]					
Up to 25%	**-**	**376**	**-**	**-**	**376**
Over 25% up to 50%	**-**	**16,350**	**-**	**-**	**16,350**
Over 50% up to 75%	**-**	**8,775**	**-**	**-**	**8,775**
Over 75%	**-**	**23,000**	**-**	**-**	**23,000**
Projects not yet started	**-**	**8,297**	**-**	**-**	**8,297**
Other[5]	**-**	**-**	**-**	**29,388**	**29,388**
Total Corporate Banking Division credit risk	**28,817**	**56,798**	**23,268**	**29,388**	**138,271**

(1) Segmentation was performed according to an analysis of the source of repayment of each credit, as presented and approved during the underwriting process.

(2) "Real estate in construction processes" includes all projects under construction in the various segments (residential, offices, commerce, etc.), including construction of properties designated for rental. This segment includes purchasing groups; projects for which a financing agreement has been signed, but financing has not commenced due to non-attainment of preliminary conditions; land where development has started; and balances of Sale Law guarantees in the process of cancellation in respect of completed projects.

(3) The financing rate is the ratio of the monetary credit at the report date to the present value of the existing collateral at the report date, before the effect of haircuts. Financing rates do not weigh in risk hedging of credit balances backed by insurance acquired from reinsurers.

(4) The absorption capacity of the projects is the maximum possible rate of decline in the value of the asset as completed without the Bank incurring losses from the projects. The absorption capacity is based on the last known report at the report date, and does not weigh in risk hedging of balances secured by insurance acquired from reinsurers.

(5) "Other credit" is any credit that does not meet the definitions of one of the segments listed above. This item includes, for example, financing of infrastructure projects (PPP); financing against collateral other than real estate (such as deposits, shares, floating liens, third-party guarantees, and more); current credit against financial robustness; and more.

Table 3-8: Credit risk in the real-estate sector at the Corporate Banking Division in Israel, by financing rate (LTV) and absorption capacity[1] (continued)

	Balance as at December 31, 2022*				
	Land	Real estate in construction processes[2]	Completed properties	Other	Total
	NIS millions				
Financing rate[3]					
Up to 45%	2,316	-	5,250	-	7,566
Over 45% up to 65%	6,422	-	7,523	-	13,945
Over 65% up to 80%	15,241	-	5,801	-	21,042
Over 80%	3,733	-	812	-	4,545
Absorption capacity[4]					
Up to 25%	-	865	-	-	865
Over 25% up to 50%	-	8,075	-	-	8,075
Over 50% up to 75%	-	6,906	-	-	6,906
Over 75%	-	27,237	-	-	27,237
Projects not yet started	-	9,109	-	-	9,109
Other[5]	-	-	-	28,112	28,112
Total Corporate Banking Division credit risk	27,712	52,192	19,386	28,112	127,402

* Reclassified.

(1) Segmentation was performed according to an analysis of the source of repayment of each credit, as presented and approved during the underwriting process.

(2) "Real estate in construction processes" includes credit for projects in various stages of progress, such as purchasing groups; projects for which a financing agreement has been signed, but financing has not commenced due to non-attainment of preliminary conditions; land where development has started; and balances of Sale Law guarantees in the process of cancellation in respect of completed projects.

(3) The financing rate is the ratio of the monetary credit at the report date to the present value of the existing collateral at the report date, before the effect of haircuts. Financing rates do not weigh in risk hedging of credit balances backed by insurance acquired from reinsurers.

(4) The absorption capacity of the projects is the maximum possible rate of decline in the value of the asset as completed without the Bank incurring losses from the projects. The absorption capacity is based on the last known report at the report date, and does not weigh in risk hedging of balances secured by insurance acquired from reinsurers.

(5) "Other credit" is any credit that does not meet the definitions of one of the segments listed above. This item includes, for example, financing of infrastructure projects (PPP); financing against collateral other than real estate (such as deposits, shares, floating liens, third-party guarantees, and more); current credit against financial robustness; and more.

Credit at financing rates greater than 80% constitutes approximately 5.4% of the total balance of completed properties and land at the Corporate Banking Division as at December 31, 2023, compared with 9.7% as at December 31, 2022. Credit with absorption capacity of up to 25% for real estate in construction processes constitutes approximately 0.8% of the total balance of real estate in construction processes at the Corporate Banking Division (excluding projects not yet started) as at December 31, 2023, compared with 2.0% as at December 31, 2022.

The main change in the composition of financing rates and absorption capacity in 2023 is an increase in the amount of NIS 8,275 million in projects with absorption capacity of 25% to 50%. This change mainly resulted from the commencement of financing of new projects. In addition, a decrease in the amount of NIS 4,237 million occurred in projects with absorption capacity over 75%, mainly as a result of the completion of construction of projects.

On May 22, 2022, the Banking Supervision Department issued an update of Directive 203 pursuant to which loans designated for the acquisition of land for the purpose of development or construction at a rate exceeding 80% of the value of the acquired asset (LTV) would be added to the list of debts risk weighted at 150%, excluding loans for the acquisition of agricultural land with no planning horizon or intention to apply for a change in designation, and excluding loans for the acquisition of land for the borrower's own use where the borrower is not categorized as being in the economic sector of construction and real estate, according to the sector classifications in Directive 831 concerning reporting on economic sectors. A questions and answers document was released on January 26, 2023, containing clarifications regarding the implementation of the circular. For additional information, see Note 24.K to the Financial Statements.

Management of credit risk in the construction and real-estate sectors

Exposure to the area of construction and real estate constitutes a substantial portion of the credit portfolio. The Bank monitors developments in credit to the construction and real-estate sectors, and applies various measures to manage the risk. Real-estate credit risks are examined individually, based on the policies and objectives established in the risk appetite that has been set, from the level of the individual transaction to an overview of the portfolio of credit for the construction and real-estate sectors at the Bank.

The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Division, in addition to the regulatory limit established by the Bank of Israel. On January 7, 2021, the Bank of Israel issued additional adjustments of Proper Conduct of Banking Business Directive 250 (Temporary Order on Coping with the Coronavirus Crisis), which also addresses Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit." The update stated that the limit on credit for the construction and real-estate sector, excluding indebtedness for national infrastructures, would rise from 20% to 22% of total indebtedness of the public, and the limit on credit for the construction and real-estate sector would rise from 24% to 26% of total indebtedness of the public. The period of the relief was extended to 24 months from December 31, 2025, provided that the rate does not exceed the rate on December 31, 2025, or the rate of the industry limit as established in Proper Conduct of Banking Business Directive 315, whichever is higher. As part of its management of exposure to this sector and compliance with the limit in this sector, the Bank uses tools such as syndication and the acquisition of insurance from rated foreign insurance companies recognized for the reduction of indebtedness pursuant to Proper Conduct of Banking Business Directive 313. Beginning in the second half of 2021, the Bank expanded its use of insurance policies. The Bank continues to use land insurance policies that protect the Bank against credit losses in respect of the portfolio of loans granted to customers of the Corporate Banking Division of the Bank that are secured by a lien on land. The Bank also uses insurance policies for Sale Law guarantees that protect the Bank against losses in respect of Sale Law guarantees issued in real-estate projects of customers of the Corporate Banking Division financed by the Bank. These insurance policies allow the Bank to reduce its exposure to the construction and real-estate sector (for further details, see Note 25.B.10 to the Financial Statements). The Bank may take additional measures in the future to continue to manage this limit and the exposure to this sector.

The underwriting process for new credit in this sector is performed according to a formalized credit policy for the various types of financing in the industry, such as financing of land, financing of residential construction, and financing of construction and yield generation of yield-generating properties. The policy encompasses qualitative and quantitative criteria such as rate of equity capital, maximum LTV, minimum coverage ratio, and absorption capacity. These criteria are adapted to the type of financed asset, and are used to set the boundaries of risk appetite in this sector. New credit is underwritten with the establishment of risk-adjusted profitability.

Within the monitoring of the portfolio, changes and trends in various risk indicators are examined, including in comparison to data published with regard to the banking system as a whole. The Bank tracks conditions and changes in macroeconomic indicators in general, and in the business environment of the industry in particular. Certain events have been defined as requiring a reexamination of policy, such as a sharp increase in the interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices. The Bank continues to examine the developments in the economy and consider adjustments accordingly. The Bank uses a model to measure the probability of default and the expected loss in the portfolio. In addition, within stress scenario testing, the effect on credit for construction and real estate is also examined.

The allowance for credit losses in respect of the construction and real-estate sectors in Israel totaled approximately NIS 2,127 million as at December 31, 2023, compared with a total of approximately NIS 1,469 million as at December 31, 2022. The total allowance for credit losses as a percentage of credit to the public in the construction and real-estate sector in Israel as at December 31, 2023, is 2.47%, compared with 1.88% as at December 31, 2022.

3.2.5. Credit exposure to foreign countries

Credit exposure to foreign countries reflects the risk that an economic, political, or other event in a foreign country may have a negative effect on the ability of debtors of the various kinds (governments, banks, and others) to meet their obligations to the Bank Group, or may impair the value of the Group's assets, including the possibility that actions taken by foreign governments may eliminate the ability to convert currency and/or transfer currency outside the country (transfer risk).

The risk of exposure to foreign countries is managed at the Bank by individually examining the risks arising from the various countries, taking into consideration the countries' ratings by the international rating agencies S&P, Moody's, and Fitch.

The total exposure to foreign countries includes balance sheet exposures in respect of balance sheet debt balances, net of local liabilities, securities, and other investments attributed to countries other than Israel. The balance sheet exposure was adjusted based on the final risk, taking into account credit reinforcements, which include guarantees, tangible and liquid collateral, insurance contracts, participations in risk, and credit derivatives.

The Bank routinely monitors and examines the macroeconomic situation in countries in which it conducts activity.

Information regarding total exposures to foreign countries and exposures to countries total exposure to each of which constitutes more than 1% of total consolidated balance sheet assets, or 20% of capital, whichever is lower, is set out below.

Table 3-9: Principal exposures to foreign countries[1]

	December 31, 2023			December 31, 2022		
	Exposure					
	Balance sheet	Off-balance sheet[2][3]	Total	Balance sheet	Off-balance sheet[2][3]	Total
	NIS millions					
Country						
United States	**34,715**	**12,163**	**46,878**	37,575	8,950	46,525
England	**3,491**	**7,716**	**11,207**	6,162	5,058	11,220
Germany	**2,155**	**4,087**	**6,242**	1,440	5,547	6,987
Others	**34,930**	**5,306**	**40,236**	30,347	6,822	37,169
Total exposures to foreign countries	**75,291**	**29,272**	**104,563**	75,524	26,377	101,901
Of which: total exposure to PIGS (Portugal, Italy, Greece, and Spain)	**212**	**51**	**263**	191	52	243
Of which: total exposure to LDCs	**506**	**93**	**599**	714	68	782
Of which: total exposure to countries with liquidity problems*	**72**	**56**	**128**	213	33	246

The line "total LDCs" includes the total exposure to countries defined as Least Developed Countries (LDCs) in Proper Conduct of Banking Business Directive 315, "Supplementary Provision for Doubtful Debts."
Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the branches/subsidiaries of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the branches/subsidiaries of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas branches/subsidiaries of the banking corporation to non-residents of the country in which the branch/subsidiary is located.
Balance sheet exposure of the banking corporation's branches/subsidiaries in a foreign country to local residents includes balance sheet exposure of the branches/subsidiaries of the banking corporation in that foreign country to the residents of the country, less liabilities of those branches/subsidiaries (the deduction is performed up to the level of the exposure).

* The list of countries with liquidity problems is based on several criteria established by the Bank.
(1) Based on the final risk, after the effect of guarantees, liquid collateral, and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive 313.
(3) Governments, official institutions, and central banks.

The increase in exposure to foreign countries mainly results from higher off-balance sheet exposure in respect of unutilized credit facilities in the United States, an increase in derivatives at financial institutions in England, and an increase in securities resale transactions (reverse repo) in Australia and the Netherlands.

3.2.6. Credit exposure to foreign financial institutions

In the course of its routine business operations, the Bank Group is exposed to risk arising from credit exposures to foreign financial institutions.

This risk arises from the range of activities conducted with the financial institutions, such as transactions carried out at the Bank's dealing rooms (deposits of foreign-currency balances and derivatives), purchases of bonds issued by such institutions, foreign-trade transactions, capital-market activity, and credit insurance through foreign insurance companies. The exposure to foreign financial institutions is influenced both by the financial robustness of each institution and by the risk in the political and economic environment in which it operates. It is emphasized that most of the credit exposures of the Bank Group are to financial institutions located in developed markets in Western Europe and North America, rated investment grade or higher.

In the ordinary course of its business, the Bank regularly applies monitoring and controls with respect to developments that may affect the ability of the financial institutions with which it conducts activity to meet their obligations. Concurrently, measures are applied in order to minimize credit risk.

Table 3-10: Exposure of the Bank Group to foreign financial institutions[1]

	December 31, 2023			December 31, 2022		
	Balance sheet credit risk[2]	Present off-balance sheet credit risk[3]	Total present credit risk	Balance sheet credit risk[2]	Present off-balance sheet credit risk[3]	Total present credit risk
	NIS millions					
External credit rating[4]						
AAA to AA-	**4,695**	**9,794**	**14,489**	4,906	11,504	16,410
A+ to A-	**9,596**	**9,769**	**19,365**	8,178	10,719	18,897
BBB+ to BBB-	**80**	**32**	**112**	101	96	197
BB+ to B-	**3**	**10**	**13**	5	-	5
Lower than B-	**-**	**-**	**-**	-	-	-
Unrated	**38**	**11**	**49**	339	66	405
Total present credit exposures to foreign financial institutions	**14,412**	**19,616**	**34,028**	13,529	22,385	35,914

(1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities, but do not include credit exposure to foreign financial institutions backed by government guarantees.
(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other balance sheet risk in respect of derivative instruments.
(3) Mainly guarantees and commitments to grant credit.
(4) According to the lowest of the long-term foreign-currency credit ratings assigned by one of the major rating agencies – S&P and Moody's.

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 34.0 billion on December 31, 2023, a decrease of approximately NIS 1.9 billion, compared with approximately NIS 35.9 billion at the end of 2022. This decrease mainly resulted from a decrease of approximately NIS 2.6 billion in off-balance sheet exposure, as a result of a decrease in guarantees and credit facilities provided to financial institutions. An offsetting effect of an increase in the amount of approximately NIS 0.9 billion in balance-sheet exposure was recorded, mainly as a result of an increase in securities of foreign financial institutions.

Approximately 99.5% of the exposure to foreign financial institutions is to financial institutions rated A- or higher.

The Bank Group's exposure to foreign financial institutions is distributed as follows: 57.6% in insurance companies (mainly due to the acquisition of insurance policies), 37.7% in banks and bank holding companies, and 4.7% in another financial institution.

The exposure of the Bank Group is to foreign financial institutions operating in Western European countries (60%), the United States (33.7%), and South and East Asian countries (6.3%).

3.2.7. Risks in the housing loan portfolio

Table 3-11: Risks in the housing loan portfolio

	Balance as at	
	December 31, 2023	December 31, 2022
	NIS millions	
Credit balances		
Loans from Bank funds	**131,650**	128,177
Loans from Finance Ministry funds*	**868**	898
Grants from Finance Ministry funds*	**297**	272
Total	**132,815**	129,347

	For the year ended	
	December 31, 2023	December 31, 2022
	NIS millions	
Execution of housing loans		
Total loans from Bank funds	**14,630**	24,947
Loans from Finance Ministry funds		
Loans	**61**	47
Grants	**32**	38
Total from Finance Ministry funds	**93**	85
Total new loans	**14,723**	25,032
Old loans refinanced from Bank funds	**1,374**	1,538
Total loans granted	**16,097**	26,570

* This amount is not included in balance sheet balances to the public.

Table 3-12: Development of amounts past due in housing loans and allowance for credit losses

	Recorded debt balance	Debt past due by 90 days or more or non-accruing	Allowance for credit losses in respect of housing loans	Rate of allowance for credit losses in respect of housing loans	Percentage of debt past due by 90 days or more or non-accruing
	NIS millions/percent				
December 31, 2023	**131,650**	**755**	**632**	**0.48%**	**0.57%**
December 31, 2022	128,177	581	519	0.40%	0.45%
December 31, 2021	115,166	595	533	0.46%	0.52%

The amount of new loans decreased significantly in 2023 compared with 2022, as a result of a decrease in the quantity of transactions. The quantity of transactions decreased sharply in October, influenced by the outbreak of the Swords of Iron War, and the recovery in November was moderate, so that the volume of transactions remained low.

The percentage of debt past due by 90 days or more or non-accruing and the rate of the allowance for credit losses on December 31, 2023, are higher than the rates at the end of the preceding year. During the course of 2023, the Bank increased the collective allowance for credit losses in respect of housing loans, and its rate as a percentage of total housing loans, due to predicted macroeconomic effects, including estimates regarding the war, and in view of the higher uncertainty of economic conditions and the probability of economic deceleration.

Development of housing credit balances

Table 3-13: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank

	Unlinked segment				CPI-linked segment				Foreign-currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate		Recorded debt balance in NIS millions	Rate of change during the period
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %		
December 31, 2023	**34,441**	**26.2%**	**51,534**	**39.1%**	**14,954**	**11.4%**	**30,623**	**23.3%**	**98**	**0.1%**	**131,650**	**2.7%**
December 31, 2022	32,815	25.6%	50,886	39.7%	13,951	10.9%	30,398	23.7%	127	0.1%	128,177	11.3%
December 31, 2021	27,672	24.0%	45,600	39.6%	13,610	11.8%	28,137	24.4%	147	0.1%	115,166	15.8%

Risk quantification and measurement – housing credit portfolio

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank.

The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Division. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, rate past due, etc. These indicators are also monitored in comparison to the data of the banking system as a whole.

The Bank tracks conditions and changes in macroeconomic indicators in general, and in the business environment of the industry in particular. Certain events have been defined as requiring a reexamination of policy, such as a sharp increase in the floating interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices.

Data are reported on a monthly basis in a divisional risk forum headed by the Head of Retail Banking, and on a quarterly basis, as part of the report on developments in the credit portfolio and in credit risk, to the Board of Management and Board of Directors.

The Bank uses a statistical model to measure the probability of default and the expected loss in the mortgage portfolio. In addition, within stress scenario testing, the effect on the mortgage portfolio is also examined. Insurance arrangements are also in place – life insurance and building insurance.

Table 3-14: Developments in housing credit balances, last five years

	2023	2022	2021	2020	2019
			NIS millions		
Balances at end of period	**131,650**	128,177	115,166	99,495	89,777
Annual change in balances	**2.7%**	11.3%	15.8%	10.8%	10.2%
Execution of new loans	**14,723**	25,032	28,809	20,725	18,325

Housing loan data – percentage of total new loans executed

Table 3-15: Characteristics of housing credit granted by the Bank

	For the year ended		
	December 31, 2023	December 31, 2022	December 31, 2021
Characteristics			
Financing rate over 60%	**41.9%**	42.2%	41.0%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	**0.9%**	0.2%	0.1%
Percentage with floating rates	**55.3%**	59.7%	59.8%
Percentage of all-purpose loans	**6.8%**	3.1%	4.2%
Loans for investment purposes as a percentage of total purchases of homes	**8.9%**	10.4%	10.8%
Principal planned for repayment after age 67 (excluding investments)	**11.0%**	9.1%	8.1%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	**26.4**	25.1	24.6

The balance of housing loans increased by 2.7% in 2023, a significantly lower rate than the growth in previous years. The more moderate growth rate in balances in 2023 was influenced by the increases in the interest rate, the increase in inflation, and the expectations of a decrease in prices, which led to a significant decrease in the quantity of transactions. Following the outbreak of the Swords of Iron War, the number of transactions in October fell sharply, and was lower than the annual average, while the recovery in November was moderate, so that the volume of transactions remained low.

Several indicators, including the percentage of payment-to-income ratios greater than 40%, the percentage of all-purpose loans, the percentage of principal scheduled for repayment after the age of 67, and the average original term to maturity of loans for purchases of homes in years, rose in 2023 in comparison to 2022. These changes were influenced by the price gains of recent years and by the increase in the interest rate that began in April 2022.

The housing credit portfolio is characterized by a relatively low risk level and high collateral coverage. According to the estimates of the Bank, the economic environment, combined with the effects of the war, may be reflected in a further decrease in portfolio quality. These effects are expressed in an increase in the collective allowance for credit losses, which reflects the Bank's estimates of expected credit losses throughout the lifetime of the transactions in the portfolio.

The weighted average financing rate (LTV) in the housing-loan portfolio of the Bank as at December 31, 2023, is approximately 46%, similar to the financing rate as at December 31, 2022 (based on the financing rate when the loan was granted). The effective rate is even lower, due to regular repayments since the credit was granted and an increase in the value of the pledged assets in respect of a decisive majority of the assets in the portfolio.

For further information regarding initiatives of the Bank for customers aimed at coping with the increase in the interest rate and the effects of the war, see the section "Housing loans" in the Corporate Governance Report.

3.2.8. Credit to private customers (excluding housing)

Credit is granted to private customers in accordance with the credit policy and credit and collateral procedures, including with respect to the purpose of the credit and the suitability of this purpose to the customer's needs, the amount of credit requested, and the appropriateness of the amount for the customer's repayment capability. Credit applications of private customers in the Retail Banking Division, which are approved at the branches, are processed using automated systems, models, and tools that support decision-making by the authorized personnel. Credit applications of private customers are submitted and examined at the level of risk groups, as required in the directives of the Bank of Israel. Credit applications are examined with an emphasis on the matters noted above.

Private customers in the Retail Banking Division are offered, among other things, online credit in the form of Instant Credit or an advanced underwriting model. The maximum amount of the loan that a customer can receive and the terms of the loan are determined based on various criteria, according to data regarding the customer and the customer's accounts.

Proactive proposals to grant credit to private customers are directed to specified population segments, following the application of relevant screening criteria, in accordance with rules concerning fairness and compliance. Lending is matched to the customer's needs and repayment capability, after providing the customer with due disclosure regarding the data of the loan.

The Bank's growth plan with regard to banking products, including in the area of credit, is based on aspects of growth potential as well as risk aspects, including the expected growth of the economy, expected adjustments of the interest rate, customers' repayment capability, the expected volume of repayments, and more. The Bank routinely monitors credit execution and risk.

The Retail Banking Division applies measures to manage credit risk in respect of private individuals, based on the credit risk management principles of the Bank, through measurement and control tools used to monitor the credit portfolio and the quality, risk level, and compliance with policy limits of the credit portfolio, including the following: a statistical model for rating the credit risk of private borrowers, risk-appetite indicators, credit policies and procedures, a hierarchy of authority, and credit-risk control processes.

Due the Swords of Iron War, the segment of private individuals may suffer damage as a result of effects on the business sector, including deceleration of economic activity and more extensive damage to specific economic sectors. If these effects materialize, there may be an increase in unemployment and a decrease in wages. Note that the point of origin reflects a high employment rate.

Table 3-16: Balance of credit to private individuals

	Balance as at		Change	
	December 31, 2023	December 31, 2022		
	NIS millions			
Balance sheet				
Negative balance in current accounts	**2,582**	2,666	(84)	(3.2%)
Loans[1]	**24,588**	24,256	332	1.4%
Of which: bullet and balloon loans	**53**	48	5	10.4%
Credit for purchases of motor vehicles[2]	**2,696**	3,359	(663)	(19.7%)
Debtors in respect of credit-card activity	**4,818**	4,849	(31)	(0.6%)
Total balance sheet credit risk	**34,684**	35,130	(446)	(1.3%)
Off-balance sheet				
Off-balance sheet credit risk	**22,030**	17,980	4,050	22.5%
Total credit risk	**56,714**	53,110	3,604	6.8%

(1) Excluding loans for purchases of motor vehicles.
(2) Including loans granted for the purchase of motor vehicles or with a lien on a motor vehicle.

The balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, decreased by approximately 1.2% in 2023 in comparison to December 31, 2022. Total balance sheet credit risk decreased by approximately 1.3% in this period, and total off-balance sheet credit risk increased by approximately 22.5%, mainly influenced by an increase in credit facilities in credit cards.

The Bank is examining its exposure to the regions most affected by the fighting, and performing assessments regarding economic sectors likely to be significantly hurt. As noted, the Bank cannot estimate the duration or developments of the war, and correspondingly the extent of damage in each of these areas. However, the risk level of borrowers employed in fields and areas likely to be hurt by the economic impacts of the war may increase.

For further information regarding initiatives of the Bank for customers aimed at coping with the increase in the interest rate and the effects of the war, see the section "Private customers" in the Corporate Governance Report.

Table 3-17: Distribution of risk of balance sheet credit to private individuals, by average income[1] and borrower size

	December 31, 2023					December 31, 2022				
	Average account income				Total	Average account income				Total
	Accounts without regular income	Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand		Accounts without regular income	Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand	
	NIS millions									
Credit per borrower in NIS thousands										
Up to 20	**52**	**1,211**	**1,086**	**1,335**	**3,684**	57	1,307	1,057	1,225	3,646
20 to 40	**94**	**892**	**810**	**1,077**	**2,873**	109	1,052	830	1,084	3,075
40 to 80	**269**	**1,632**	**2,002**	**1,822**	**5,725**	340	2,060	2,188	1,998	6,586
80 to 150	**395**	**1,686**	**3,434**	**3,487**	**9,002**	442	1,987	3,803	3,809	10,041
150 to 300	**185**	**655**	**3,088**	**6,120**	**10,048**	203	689	2,544	6,057	9,493
Over 300	**38**	**92**	**288**	**2,934**	**3,352**	46	119	199	1,925	2,289
Total	**1,033**	**6,168**	**10,708**	**16,775**	**34,684**	1,197	7,214	10,621	16,098	35,130

(1) Account income was calculated based on the average income over a period of twelve months.

Table 3-18: Distribution of risk of balance sheet credit to private individuals, by borrowers' financial asset portfolio balance

	December 31, 2023	December 31, 2022
	Balance sheet credit risk	
	NIS millions	
Size of financial asset portfolio, in NIS thousands		
Up to 10	**18,877**	18,807
10 to 50	**6,628**	6,515
50 to 200	**5,033**	5,227
200 to 500	**2,052**	2,284
Over 500	**2,094**	2,297
Total	**34,684**	35,130

Table 3-19: Distribution of risk of balance sheet credit to private individuals, by type of interest and remaining repayment period

	December 31, 2023			December 31, 2022		
	Loans at floating interest rates	Loans at fixed interest rates	Total	Loans at floating interest rates	Loans at fixed interest rates	Total
	NIS millions					
Term to maturity						
Up to one year	**3,077**	**5,312**	**8,389**	3,186	5,298	8,484
1 to 3 years	**5,650**	**71**	**5,721**	6,133	59	6,192
3 to 5 years	**9,438**	**85**	**9,523**	11,114	84	11,198
Over 5 years	**10,926**	**125**	**11,051**	9,161	95	9,256
Total	**29,091**	**5,593**	**34,684**	29,594	5,536	35,130

For details regarding problematic debts in respect of private individuals in Israel, see Note 29 to the Financial Statements.

3.2.9. Leveraged financing

The Bank provides leveraged financing to its customers from time to time. Leveraged financing is managed and defined at the Bank in accordance with the directives of the Bank of Israel, and in particular, with Proper Conduct of Banking Business Directive 311 (Credit Risk Management), Proper Conduct of Banking Business Directive 323 (Limits on Financing of Equity Transactions), and Proper Conduct of Banking Business Directive 327 (Management of Leveraged Loans).

Among other matters, leveraged financing includes equity transactions (transactions for the acquisition of an equity interest in another corporation, acquisition of all or a significant part of the assets of another corporation, buybacks of issued shareholders' equity, or capital distribution – payment of a dividend, or another transaction aimed at increasing value for shareholders, as defined in Proper Conduct of Banking Business Directive 323); financing for borrowers in various segments of specified economic sectors characterized by exceptional levels of certain parameters, relative to the accepted norms in the economic sectors, such as a high financing rate that deviates from the policy for the sector; and financing of mezzanine debt.

The Bank has set an internal limit on leveraged financing as a percentage of the Tier 1 capital of the Bank. Developments in leveraged financing and compliance with the established limit are reported each quarter to the Board of Management and the Board of Directors of the Bank, for monitoring of the risks inherent in this type of financing.

Data regarding credit risks in respect of leveraged financing follow. The disclosure focuses on exposures in respect of leveraged borrowers/leveraged transactions where the credit balance exceeds the amount of 0.5% of Tier 1 capital.

Table 3-20: Exposures of the Bank in respect of leveraged financing, by economic sector of the borrower*

	December 31, 2023			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	**1**	**255**	**-**	**255**
Construction and real estate – real-estate activities	**1**	**545**	**-**	**545**
Financial services and insurance services	**2**	**955**	**-**	**955**
Water supply and sewage services	**1**	**272**	**-**	**272**
Total	**5**	**2,027**	**-**	**2,027**

	December 31, 2022			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – real-estate activities	2	1,196	216	1,412
Hotels, hospitality, and food services	1	240	-	240
Mining and quarrying	3	441	293	734
Commerce	1	350	-	350
Financial services and insurance services	1	657	51	708
Industry	1	429	-	429
Total	9	3,313	560	3,873

* Net of charge-offs and allowances for credit losses calculated on an individual basis, if any.

3.2.10. Credit risk in respect of exposure to major borrowers

Table 3-21: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

	December 31, 2023			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector of the borrower				
Electricity supply	**1**	**1,748**	**1,306**	**3,054**
Construction and real estate – construction	**7**	**6,905**	**4,784**	**11,689**
Construction and real estate – real-estate activities	**2**	**1,379**	**1,429**	**2,808**
Construction and real estate – civil engineering	**3**	**1,961**	**4,415**	**6,376**
Information and communications	**1**	**1,190**	**73**	**1,263**
Financial services	**14**	**13,560**	**17,780**	**31,340**
Industry	**3**	**1,256**	**4,735**	**5,991**
Motor-vehicle trading	**1**	**1,149**	**59**	**1,208**
Total	**32**	**29,148**	**34,581**	**63,729**

	December 31, 2022			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector of the borrower				
Electricity supply	1	1,310	1,360	2,670
Construction and real estate – real-estate activities	6	6,568	3,419	9,987
Construction and real estate – civil engineering	3	1,187	3,826	5,013
Hotels, hospitality, and food services	1	1,014	297	1,311
Information and communications	1	1,194	150	1,344
Financial services	10	11,662	10,557	22,219
Industry	2	1,206	3,642	4,848
Total	24	24,141	23,251	47,392

3.2.11. Credit risk in respect of exposure to borrower groups

As at December 31, 2023, there is no group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: "Directive 313"), exceeds 15% of the capital of the banking corporation (as defined in Directive 313).

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. As at the reporting date, the Bank is in compliance with the limits.

In November 2023, the Bank of Israel issued a draft update of Proper Conduct of Banking Business Directive 313, "Supervisory Framework for the Measurement and Control of Large Exposures," the essence of which is a change in the manner of calculation of indebtedness in respect of large exposures. The Bank is examining the implications of the implementation of the directive.

3.3. Market risk

Market risk is the risk of loss or decline in value as a result of change in the economic value of a financial instrument, or of a portfolio of assets/instruments, due to changes in prices, rates, yields, spreads, and other market parameters.

This includes:

- **Interest-rate risk –** The risk of loss or decline in value as a result of changes in interest rates in the various currencies;
- **Currency risk –** The risk of loss as a result of changes in exchange rates;
- **Inflation risk –** The risk of loss as a result of changes in the curve of CPI expectations and in actual inflation;
- **Share price risk –** The risk of loss as a result of changes in stock prices or in stock indices;
- **Credit spread risk –** The risk of loss as a result of change in the spread between the yield to maturity of corporate bonds traded in the markets and the relevant risk-free interest rate;
- **Volatility risk –** The risk of loss as a result of changes in the volatility rates quoted in the market;
- **Basis spread risk –** The risk of loss as a result of changes in the spreads between different interest-rate curves or different interest bases.

3.3.1. Management of market risks

Market risks are managed based on a global view of the Bank's activity in Israel and at its New York branch, taking into account the activity of subsidiaries with significant exposures for the Group. The Board of Management and the Board of Directors approve areas of activity and risk limits. Market risk management policy is aimed at increasing expected profits while maintaining approved, controlled risk levels.

Market-risk management at the Bank differentiates between exposures that arise in the course of routine management of the Bank's assets and liabilities, hereinafter referred to as the banking book (non-trading exposures), and exposures in the trading book (primarily managed in the dealing rooms).

Global management is under the responsibility and direction of the Head of Financial Markets and International Banking. Routine management and supervision of asset and liability management in the banking book and in the trading book are under the responsibility of managers in the Asset and Liability Management Area and in the Dealing Rooms and Brokerage Area, respectively, of the Financial Markets Division in Tel Aviv, and in the Asset and Liability Management Unit and the dealing room at the Bank's New York branch. The branch is professionally subordinate in these matters to the Head of Financial Markets and International Banking. With regard to the management of investment risk in the nostro portfolio, see the section "Share price and credit spread risk," below.

Policies are guided and controlled by the Board of Management Asset and Liability Management Committee, the Board of Management Nostro Committee, and the Board of Management Investment Committee. Policies, including the established limits and objectives, are submitted for discussion and approval to the committees of the Board of Management, the committees of the Board of Directors, and/or the plenum of the Board of Directors, as relevant.

Ongoing activity is conducted by subcommittees, with the participation of senior officers of the Bank.

Market risks are managed separately by each subsidiary in the Bank Group, according to policy established by each company's board of directors and in accordance with Group policy. Market risks are assessed and controlled based on a uniform methodology at the Group level, under the direction of the Risk Management Division, taking into account the size of capital and the unique characteristics of the activity of each subsidiary. Exposures to market risks of the subsidiaries are examined by the Market and Liquidity Risk Management Department in the Risk Management Division, and reported to the Board of Management and the Board of Directors of the Bank at an appropriate frequency based on the risk level. For additional information regarding risk management, assessment, and control, see the Report on Risks.

3.3.2. Interest-rate risk

Interest-rate risk is the risk of loss or decline in value due to changes in yield curves in the various currencies. This risk also includes the following risk factors:

- **Repricing risk –** Risk arising from timing differences in terms to maturity and interest-rate renewal dates (for floating interest rates).
- **Yield curve risk –** Risk arising from different changes in yield curves, reflected in changes in the curve, a parallel increase/decrease, the slope of the curve (steepening or flattening), or its shape (twist).
- **Basis risk –** The risk of loss as a result of changes in the spreads between different interest-rate curves or different interest bases.
- **Optionality risk –** Risk arising from different exercise rights inherent in assets and liabilities (for example, the right to withdraw funds at any time, sometimes without fines).

The Bank, like banks worldwide, is exposed to interest-rate risk both in the banking book and in the trading book. Interest-rate risk is inherent in banking activity. Most of the exposures to this risk arise from the management of the banking book. Interest-rate risk management is part of the management of exposures to market risks.

Interest-rate risk in the banking book – Refers to the potential effect of changes in the various yield curves on the economic value of financial capital and/or on accounting income and accounting capital. The risk emerges during the routine and proactive banking activity of the Bank, as a result of the provision of routine services to the general public and to the business and financial sectors, and from other activities; this includes interest-rate exposure arising from the management of investment portfolios. The risk arises from differences in the structure of assets and liabilities – gaps between linkage segments, durations, interest-rate bases, interest-rate renewal dates, and more.

The exposure to this risk is measured on two levels: (a) value exposure – an estimate of the change in the economic value of the banking book as a result of a change in the yield curve; (b) accounting income sensitivity – the expected changes in accounting income from the banking book as a result of changes in the yield curve (assuming a fixed level of balances in each product). Income exposure is also measured on two levels: income sensitivity of the entire banking book in the next twelve months, and immediate income sensitivity of the instruments measured in accounting based on fair value.

Limits apply at the Bank both to the sensitivity of economic value and to the sensitivity of income and capital to scenarios of change in the shekel and CPI-linked yield curves and in yield curves in other currencies (including financial subsidiaries under the Bank's management and subsidiaries with exposure significant for the Group, if any). In order to calculate the sensitivity of economic value to changes in interest rates, the Bank refers to all financial assets and liabilities, while treating part of the balances of current-account deposits of the public as a long-term liability spread over several years, in accordance with a model approved periodically by management and the Board of Directors. Assumptions regarding prepayments of mortgages, savings plans, and more are also used. Income sensitivity differs from value sensitivity, mainly in that it does not include changes in the discounted value of long-term assets and liabilities that are not measured in the profit and loss report on a fair-value basis. Income sensitivity includes changes in income arising from changes in interest rates, both as a result of a change in interest rates of products at variable rates and as a result of renewal of the product (maintaining a fixed level of balances in each product) at the interest rates of the scenario. Interest-rate risk management policy is aimed, in congruence with the objectives of the Bank, at achieving the desired structure of exposures in each segment (unlinked shekel; CPI-linked shekel; foreign currency and foreign-currency-linked), in accordance with estimates concerning market variables, and subject to limits. Sensitivity to interest rates is measured, in a controlled manner, at least once each month, with more frequent measurements for exposure management purposes. In general, the goal of interest-rate risk management in the Group is to allow service to customers and maximize the profitability of the Bank, while taking controlled risks.

Derivatives not used for accounting hedges affect the capital of the Bank directly, through the profit and loss account. The Bank examines the value sensitivity of derivatives not used for accounting hedges against designated sensitivity limits that are separate from the overall limits. The Bank uses derivatives to hedge part of the interest-rate sensitivity of long-term bonds and liabilities in foreign currency, applying hedge accounting rules. The Bank also uses derivatives to hedge interest-rate sensitivities in the banking book, as well as for activity in the trading book. These sensitivities are included in the value sensitivity presented below.

Quantitative information about interest-rate risk – sensitivity analysis

Table 3-22: Adjusted[1] net fair value of the financial instruments of the Bank and its consolidated companies

	December 31, 2023			December 31, 2022*		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Adjusted net fair value[1]	**51,628**	**2,271**	**53,899**	46,080	2,178	48,258
Of which: banking book	**51,325**	**2,597**	**53,922**	46,551	2,155	48,706

* Reclassified.

(1) Net fair value of financial instruments, excluding non-monetary items, and after the effect of employee benefit liabilities and a model-based layout of positive current-account balances.

For further details regarding assumptions used to calculate the fair value of financial instruments, see Note 32.B to the Financial Statements.

Table 3-23: Effect of scenarios of changes in interest rates on the adjusted* net fair value of the Bank and its consolidated companies

	December 31, 2023			December 31, 2022		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Parallel changes						
1% parallel increase	**(952)**	**(153)**	**(1,105)**	235	37	272
Of which: banking book	**(952)**	**(154)**	**(1,106)**	185	35	220
1% parallel decrease	**960**	**145**	**1,105**	(147)	(52)	(199)
Of which: banking book	**967**	**145**	**1,112**	(95)	(50)	(145)
Non-parallel changes						
Steepening[1]	**(705)**	**(7)**	**(712)**	(280)	94	(186)
Flattening[2]	**534**	**(59)**	**475**	422	(70)	352
Increase in short-term interest rate	**111**	**(148)**	**(37)**	443	(30)	413
Decrease in short-term interest rate	**(148)**	**142**	**(6)**	(441)	75	(366)

* Net fair value of financial instruments, excluding non-monetary items, and after the effect of employee benefit liabilities and spreading over periods of on-demand deposits.

(1) Steepening – decrease in the short-term interest rate and increase in the long-term interest rate.

(2) Flattening – increase in the short-term interest rate and decrease in the long-term interest rate.

This table presents the change in the adjusted net fair value of all of the financial instruments under the assumption that the noted change occurs in all interest rates, in all linkage segments.

An update of the current-account model, in light of the change in depositors' behavior due to the increase in the interest rate, was a significant factor in the change in sensitivity to the shekel interest rate in comparison to December 31, 2022, in addition to balance-sheet effects and other interest-rate effects.

Table 3-24: Effect of scenarios of changes in interest rates on net interest income and on non-interest financing income

	December 31, 2023			December 31, 2022		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
1% parallel increase	**51**	**82**	**133**	681	(243)	438
Of which: banking book	**51**	**71**	**122**	681	(291)	390
1% parallel decrease	**(917)**	**(104)**	**(1,021)**	(1,773)	233	(1,540)
Of which: banking book	**(917)**	**(82)**	**(999)**	(1,773)	284	(1,489)

Income sensitivity in the table above was calculated by shifting yield curves, using behavioral assumptions regarding changes in deposit spreads, and regarding the transfer of funds from current accounts to deposits in the case of an increase in the interest rate. The assumptions are examined and updated periodically, according to developments in the interest-rate environment. In view of the changes in the interest-rate environment, current-account balances, and customers' actual behavior, the sensitivity of income decreased during 2023 relative to the data for the end of the preceding year. The sensitivity of the trading book was calculated using the MTM approach.

When the Swords of Iron War broke out, volatility was observed in the shekel interest-rate curves, which was tempered later in the fourth quarter, so that no material change was predicted in the curves. In January 2024, the Bank of Israel lowered the interest rate by 0.25%, while interest-rate curves reflected expectations of additional reductions. For details of the effect on the Bank, see the tables above. In February 2024, Moody's downgraded its credit rating for the State of Israel to A2. The markets had apparently already priced in the rating downgrade, and when it occurred it had no material effect on shekel interest-rate curves, exchange rates, or the credit spread of the state. For the potential effect of other rating downgrades, see the section "Swords of Iron War." The Bank is monitoring the developments in credit and deposits and the changes in sensitivities of value and income in the different scenarios, and acting as necessary.

Table 3-25: Effect of scenarios of changes in interest rates on shareholders' equity (net after tax)

	December 31, 2023	December 31, 2022
	NIS millions	
1% parallel increase	**(723)**	(805)
1% parallel decrease	**704**	643

3.3.3. Exchange-rate risk

Currency risks (also known as linkage-base exposure) include exposure to exchange rates of the various currencies against the shekel, and exposure to the consumer price index, at the Bank as a whole.

The Bank operates in currency markets through spot and forward transactions, as well as through options, both on its own behalf and on behalf of its customers. Consequently, the Bank has activity in tradable currencies in developed markets as well as developing markets.

Currency exposure management, including the use of hedging instruments, is part of the management of exposures to market risks, as described above, and is applied both in activity in the banking book and in trading activity in the dealing rooms. Ongoing management is conducted within the limits set by the Board of Directors on exposures to foreign currency and to the CPI and on overall exposures, main points of which appear in the summary of limits in the Report on Risks.

Table 3-26: Assets and liabilities by linkage base

	December 31, 2023						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
	NIS millions						
Total assets	**481,193**	**64,389**	**106,416**	**12,287**	**5,742**	**16,503**	**686,530**
Total liabilities	**426,878**	**32,629**	**149,224**	**14,014**	**4,886**	**6,469**	**634,100**
Surplus assets (liabilities)	**54,315**	**31,760**	**(42,808)**	**(1,727)**	**856**	**10,034**	**52,430**
Derivative instruments	**(39,712)**	**(2,427)**	**41,587**	**1,708**	**(1,156)**	**-**	**-**
Overall total	**14,603**	**29,333**	**(1,221)**	**(19)**	**(300)**	**10,034**	**52,430**

	December 31, 2022						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
	NIS millions						
Total assets	478,401	60,143	95,114	11,311	5,230	15,154	665,353
Total liabilities	415,121	37,951	143,625	12,033	4,409	5,711	618,850
Surplus assets (liabilities)	63,280	22,192	(48,511)	(722)	821	9,443	46,503
Derivative instruments	(42,911)	(3,601)	46,900	650	(1,038)	-	-
Overall total	20,369	18,591	(1,611)	(72)	(217)	9,443	46,503

* Including derivative instruments whose underlying asset refers to a non-monetary item, and non-monetary items exposed to changes in foreign-currency exchange rates.

(1) Including linked to foreign currency.

For further details, see Notes 30 and 31 to the Financial Statements.

Table 3-27: Sensitivity of the Bank to changes in the exchange rates of foreign currencies with a significant volume of activity and to changes in the consumer price index

	December 31, 2023		December 31, 2022	
	10% increase	10% decrease	10% increase	10% decrease
	NIS millions			
USD	**(131)**	**111**	(82)	171
EUR	**(2)**	**2**	(31)	43
	3% increase	3% decrease	3% increase	3% decrease
CPI	**879**	**(899)**	555	(591)

The table above presents an analysis of the sensitivity of the economic value of the Bank to changes in exchange rates, based on revaluation of all balance sheet and off-balance sheet instruments in the risk-management system, using prevalent models for revaluation of each instrument and using representative rates as the baseline exchange rate. For the purposes of the calculation, the portfolio is revalued at an exchange rate reflecting an increase/decrease at the presented rate, with no additional assumptions. Changes in exchange rates also have some effect on total risk-adjusted assets, and correspondingly on capital ratios. It is further noted that changes in exchange rates affect the value of non-monetary items (such as securities) denominated in foreign currency, which were not taken into account in the sensitivity analysis. Sensitivity to the consumer price index is calculated according to the exposure of the Bank to the index, as detailed in Note 30 to the Financial Statements, plus the effect of the CPI floor on the expected accounting profit.

3.3.4. Share price and credit spread risk: investment risk

Investment risk is defined at the Bank as exposure to the stock market, to credit spreads, and to credit risk in the bond and stock markets in the banking book of the Group (as a result of holdings in these products, the Bank may also be exposed to interest-rate risks and/or currency risks and/or liquidity risks, which are managed separately).

In the management of the investment portfolio, the Bank is exposed to credit risks and credit spreads, in its investments in bonds of companies and of foreign governments. According to the definition at the Bank, Israeli government bonds in NIS and in foreign currency and government bonds of the country in which a branch/subsidiary operates, held by the branch/subsidiary, do not bear investment risk, and are therefore not included in the measurement of investment risk at the Bank.

Investment risk at the Bank Group mainly arises in three frameworks:

1. An investment portfolio managed under the responsibility of the Financial Markets and International Banking Division. In general, these investments are performed through tradable securities. For details and more extensive information, see the Report on Risks.

2. Non-tradable investments, usually performed through the subsidiary Poalim Equity, according to policy established periodically by the board of directors of the company, in conformity with the policy of the Group. The risk appetite limit for this activity was raised over the last few years, within a multi-year investment trajectory approved by the Board of Directors of the Bank. For details, see the section "Principal companies" in the Report of the Board of Directors and Board of Management.
3. Affiliates: strategic holdings in shares of affiliated companies.

The Group holds shares and bonds, primarily for investment purposes, a decrease in the value of which may harm the profit and loss of the Bank and/or the capital of the Bank.

Table 3-28: Details of the Bank Group's investment in shares in the banking book, by balance sheet classification

	December 31, 2023			December 31, 2022		
	Balance sheet value and fair value	Of which: traded on a stock exchange	Of which: without a readily determinable fair value	Balance sheet value and fair value	Of which: traded on a stock exchange	Of which: without a readily determinable fair value
	NIS millions					
Investments classified as not held for trading	**4,433**	**1,572**	**2,861**	4,048	1,733	2,315
Total investments in shares	**4,433**	**1,572**	**2,861**	4,048	1,733	2,315

For additional information regarding investments, see Note 12 to the Financial Statements.

For details and more extensive information regarding market risks, including interest-rate risk, exchange-rate risk, and investment risk (share and credit spread risk), see the Report on Risks.

3.4. Liquidity and refinancing risk

Liquidity risk – Liquidity risk is defined as present or future risk to the stability and profits of the Bank arising from an inability to meet its obligations. Liquidity risk at the Bank is examined from a broader perspective, encompassing the ability to repay liabilities on schedule, including during times of stress, without damage to routine operations within the work plans of the Bank and without incurring exceptional losses.

Refinancing risk – The risk of inability to raise new resources to replace resources that have matured, or the risk that the reissue may be performed at durations and terms that significantly impair the Bank's net interest income. This risk is managed as part of liquidity risk.

Management of the risk

Liquidity and refinancing risks are managed based on a global view of the Bank's activity in Israel and at the New York branch. The Bank manages routine liquidity and liquidity risk on several levels. The first level is routine liquidity management at the Asset and Liability Management (hereinafter: "ALM") Area, through the NIS and foreign-currency liquidity units, in accordance with the routine needs of the Bank and its customers. The second level is the management of the Bank's liquidity risk. Liquidity risk at the Bank, in foreign currency and in NIS, is managed and controlled routinely, in accordance with regulatory directives and Group policy, with the aim of ensuring the ability to cope competitively even in exceptional supply and demand situations in the financial markets.

In accordance with Proper Conduct of Banking Business Directive 342, "Liquidity Risk Management," the Bank operates an internal model for the assessment of liquidity risk, in addition to the regulatory model. The internal model reflects the approach of the Board of Management with regard to the behavioral characteristics of financial assets and liabilities. This model is based on the proven stability of deposits at the Bank over long periods, and includes different scenarios with respect to rollover and maturity rates of assets and liabilities. In general, while in the ordinary course of business the Bank assumes very high rollover of deposits and credit, in stress scenarios the Bank assumes an outflow of deposits, according to types of customers and deposits; utilization of credit lines beyond the usual levels; declines in value of assets; and additional factors. These factors are examined annually by the Board of Management and Board of Directors of the Bank. In each scenario, the liquidity ratio is calculated based on the liquidity gap for a period of up to one month against liquid assets. The limits of the Board of Directors on the internal ratio are higher than the requirements of the directive. The scenarios applied in the internal model refer to different market conditions, and specifically to a bank scenario, a system scenario, and a combined scenario. The scenarios differ primarily in the assumptions with regard to rollover of deposits and haircuts for liquid assets. The Bank also applies models for longer and shorter periods; depositor concentration indices; an alert system, including a system that monitors indicators that may point to a risk of a crisis situation, with an action plan; and more. Some of these indicators are subject to internal and/or regulatory limits.

In accordance with Proper Conduct of Banking Business Directive 221, the Bank calculates its stand-alone liquidity coverage ratio on a daily basis, divided into total currencies and foreign currency. The Bank tracks this ratio at the subsidiaries (which are required to comply with internal liquidity limits adjusted to the nature of their operations), and calculates the consolidated ratio on a daily basis. The calculation of the consolidated ratio takes into consideration limits that may apply to the transfer of liquidity from some of the subsidiaries during a crisis. The stand-alone ratio of the banking corporation and the consolidated ratio are reported as the quarterly average of daily observations. The Board of Directors of the Bank has adopted an internal limit stricter than the regulatory LCR requirement, both for the stand-alone banking corporation and consolidated. As at December 31, 2023, the ratio stood at 129%, significantly higher than the regulatory requirement (100%).

The Bank applies Proper Conduct of Banking Business Directive 222 (Net Stable Financing Ratio – NSFR). The Board of Directors of the Bank has adopted an internal limit stricter than the regulatory requirement for the NSFR. As at December 31, 2023, the ratio stood at 128%, significantly higher than the regulatory requirement (100%), mainly due to the broad base of deposits from private customers.

Refinancing risk is managed at the Bank as part of liquidity risk. The Bank has varied sources of financing, primarily deposits from the public, mostly from private customers. As noted below, these sources create low liquidity and refinancing risk, relative to other resources.

Table 3-29: Liquidity coverage ratio (LCR)*

	For the three months ended December 31, 2023	For the three months ended December 31, 2022
	%	
A. Consolidated data		
Liquidity coverage ratio	**129%**	122%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%
B. Bank data		
Liquidity coverage ratio	**128%**	121%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%

* The consolidated ratio and the stand-alone ratio for the banking corporation are calculated daily, and reported as an average of the daily observations.

Table 3-30: Net stable financing ratio (NSFR)

	December 31, 2023	December 31, 2022
	%	
Consolidated data		
Net stable financing ratio	**128%**	130%
Minimum net stable financing ratio required by the Banking Supervision Department	**100%**	100%

The Bank has varied sources of financing, primarily deposits from the public. The deposits are taken from a very large number of depositors, with no dependence on any single depositor or group of depositors. Most of the Bank's resources are raised from the public in Israel, particularly private customers. Resources in unlinked NIS mainly derive from these customers, though also to some extent from large institutional and business clients (some of which work directly with the Financial Management Segment). Resources in linked NIS are raised both from the general public and from institutional clients who invest in deposits at the Bank and in bonds and subordinated notes (Tier 2 capital) issued by the Bank. The Bank accords high importance to raising resources that are stable and highly diversified. Funding in foreign currency includes deposits of private customers and corporate clients in Israel, foreign residents, Israeli companies abroad, repo, issues of CDs, other instruments secured by the FDIC in the United States, and additional resources.

The Bank is in compliance with all regulatory and internal liquidity risk limits, including, among others, the liquidity coverage ratio (LCR) according to Proper Conduct of Banking Business Directive 221, the internal LCR model for thirty days and for shorter and longer ranges, and the NSFR (net stable financing ratio) model, in accordance with Proper Conduct of Banking Business Directive 222. As at December 31, 2023, the Bank holds consolidated liquid assets (primarily reserves at central banks, tradable securities of sovereigns and central banks, and coins and bills) for times of crisis (after haircuts) in the amount of NIS 186.4 billion, in addition to liquid bonds not recognized for the purposes of the calculation of liquid assets. Part of the liquid assets are held by the Bank, and part are held by the subsidiaries. The Bank takes into consideration possible restrictions on the transfer of liquidity between some subsidiaries and the Bank itself. In light of the assumptions regarding rollover of deposits in the ordinary course of business, and other assumptions, the Bank does not foresee liquidity problems that would necessitate the use of the liquid assets; however, it is prepared for the required scenarios. In accordance with Proper Conduct of Banking Business Directive 222, as at December 31, 2023, the Bank, on a consolidated basis, holds stable financing sources (primarily capital, long-term deposits, and short-term deposits of private customers) in the amount of NIS 416.5 billion.

No material changes occurred in liquidity risk management policy and in resource raising policy in 2023.

The average liquidity coverage ratio during the fourth quarter of 2023 (the average of the daily observations in the quarter) was 129% consolidated and 128% for the stand-alone banking corporation, while the minimum requirement is 100%. The average ratio in the fourth quarter of 2023 increased in comparison to the ratio in the fourth quarter of 2022, due to changes in the composition of depositors (an increase in the balance of retail deposits and longer wholesale deposits) and in types of deposits (longer wholesale deposits). In view of the volatility in the markets, particularly stock markets in the United States and in Israel and the NIS-foreign currency swap market, the Bank is maintaining high liquidity levels in foreign currency.

The Bank is monitoring developments in the markets and also maintaining appropriate liquidity levels in NIS. During the first quarter of 2024, the Bank received approval from the Bank of Israel to recognize certain deposits as operational deposits. This recognition raises the liquidity coverage ratio.

The net stable financing ratio at the end of the fourth quarter of 2023 is 128%, consolidated, while the minimum requirement is 100%. The ratio decreased slightly in comparison to the ratio as at December 31, 2022, due to growth of funding needs (mainly in respect of credit and derivatives) and a decrease in stable financing sources in respect of wholesale deposits and repayment of issuances (bonds and contingent convertibles (CoCos)).

Table 3-31: Balance of total deposits of the three largest groups* of depositors**

	Balance as at	
	December 31, 2023	December 31, 2022
	NIS millions	
Group A	**12,403**	12,162
Group B	**12,088**	11,992
Group C	**9,692**	5,390

* "Group" – A depositor, including a controlling party thereof (including others under its control), and a party under its control.
** The three largest groups of depositors at that report date.

For details and more extensive information regarding liquidity risk, see the Report on Risks and Note 31 to the Financial Statements.

3.5. Operational risk

Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputational risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units and/or procedures and systems in areas related to banking activity, including units for information systems security and cyber defense, business continuity management, security, the Chief Compliance Officer, management of human resources, process controls, and more.

In view of the Swords of Iron War, the Bank applied a series of processes and means to continue to operate optimally under the circumstances, including within business continuity. In general, the operational risks related to the war and the effects thereof are being continually examined and analyzed. Accordingly, controls and measures to mitigate the risks are being considered and implemented. In terms of information security and cyber risks, note that during the war the number of cyber attacks on targets in Israel, including the Bank, has grown, with no damage to the activity of the Bank to date. The Bank is taking action to mitigate this risk.

In the area of business continuity, the Bank activated its business continuity plans as early as Saturday, the first day of the war, including through meetings of emergency teams; the transition of headquarters employees to remote work; closure of a few branches in conflict zones, and redirection of customers and employees to remote activity or other locations; adaptations of activity at other branches; operation of mobile branches; and continuous guidance to strengthen preparedness, with no substantial impairment of operations. The Bank is continually examining the situation and adapting its activity.

3.5.1. Management of operational risks

Operational risk management strategy is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization. The managerial process is oriented towards execution based on the designation of risk ownership. The goal is for communication and rational treatment of operational risks to contribute to managerial decision-making, based on considerations of business value versus cost in terms of risk, both at the level of the management of the organization and at the level of the various units.

The goals of operational risk management are:

- To ensure effective supervision and management of operational risks in all units of the Group, including risk ownership and decision-making based on cost-benefit considerations.
- To ensure effective identification and communication of operational risks in all substantial business operations of the Group and the supporting units, with the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Group.
- To establish an internal control structure promoting appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Group.
- To optimally manage and allocate regulatory capital and economic capital for operational risks.

Responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with the division heads and the managers of the subsidiaries and New York branches in the Bank Group. These activities are overseen by the Operational Risk and Market Risk Management Unit in the Risk Management Division. Routine activity is conducted in the Bank's units and in the Group by a network of operational risk controllers, based on the matrix management principle; controllers report organizationally to division heads or CEOs of subsidiaries, and receive methodology guidance from the Operational Risk Management Department.

Operational risk management activity is supervised and directed by three forums: the Board of Directors' Committee on Risk Management and Control, the Board of Management Committee on Risk Management and Compliance, and the Subcommittee on Operational Risk Management.

The operational risk management policy was approved by the Board of Management and the Board of Directors of the Bank. The policy document serves as a framework for operational risk management within the Group, in accordance with uniform principles and reporting duties aimed at complying with the Basel 2 Sound Practices standards. The Bank's activity in this area is conducted according to the rules of Proper Conduct of Banking Business Directive 206, "Capital Measurement and Adequacy – Operational Risk," which refers, among other matters, to regulatory capital allocation in respect of operational risks, and Proper Conduct of Banking Business Directive 350, "Operational Risk Management," which is congruent with the updated guidelines in the Basel document of June 2011 on sound practice for operational risk management.

The Bank operates in accordance with the Basel 2 standardized approach and the corresponding requirements of the Proper Conduct of Banking Business Directives. The following projects and activities, among others, are underway as part of this plan:

- Collection of information regarding operational events in the Bank Group. A database for this purpose was established in late 2002, and is used, among other things, to analyze events, trends, and patterns and to support the mapping and assessment of operational risks to which the Group is exposed.
- Analysis of risk scenarios in activities and processes from a forward-looking perspective.
- Key risk indicators (KRIs) for operational risks have been specified, as part of the development of a monitoring and control infrastructure, with respect to products, processes, or institutional risks. A KRI is a metric that can be measured in quantitative terms, and may also include qualitative information indicating the presence of a particular factor or trend. Thresholds have been set for follow-up, escalation, and treatment, as relevant.
- Lessons-learned processes applied to operational events; relevant information shared among units; organizational learning.
- Quarterly reports are submitted to the Subcommittee on Operational Risk Management, the Board of Management Committee on Risk Management and Compliance, the Board of Directors' Committee on Risk Management and Control, and the plenum of the Board of Directors. The reports include updates on work plans, the status of projects in progress, information about operational events, assessments of potential risks, trends, changes in the risk profile, and comparative external information.

Additional related activities:

- An automated operational risk management system has been implemented at the units of the Group. The system operates in the areas of collection of information regarding operational events, mapping and assessment of risks and controls, collection of KRIs (key risk indicators), action items, lessons learned, and reports.
- Formulation and implementation of a comprehensive framework of principles and standards for a uniform control concept within the Bank Group. Within this framework, control forums convene and a periodic process is conducted to evaluate the effectiveness of controls.
- Launches of new products and activities, in accordance with the defined policy for the launch of a new product in the Bank Group, are accompanied by examination and analysis of the relevant operational risks involved in the product or activity.
- Establishment of methodological infrastructure for operational risk management in material IT processes and cloud applications.
- Outsourcing of activities with due attention to the risks unique to outsourcing, in accordance with the guidelines of the dedicated policy on this matter.
- Special attention, including the formulation of a dedicated policy, has been devoted to the management of digital banking risks, in accordance with the guidelines in Proper Conduct of Banking Business Directive 367, "E-Banking."

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Bank and the Group, including mapping of the risk of embezzlement and fraud. This activity is conducted based on a uniform methodology, in line with the requirements of the Basel Committee and the directives of the Bank of Israel on this matter, including monitoring of the implementation of the recommendations. A comprehensive mapping process of operational risks in all units of the Group is performed every three years. Subsequently, the findings are maintained, updated, and expanded through additional analyses, and risk analysis of new products and activities and of material contractual engagements for outsourcing of activities and processes.

The goal of this activity is to identify material risk centers, define risk ownership, assess risks (average and extreme), assess the existing controls, and differentiate low risks from material risks that require additional examination and action, based on cost-benefit considerations, according to the following main ways of coping with risks: minimization of the risk through the application of additional controls; transfer of the risk to a third party (e.g. insurance, outsourcing); absorption of the risk, with quantification thereof; and reduction of the activity that creates the risk.

The operational risk profile is monitored periodically in relation to the operational risk appetite established in the policy, using various parameters, at the level of the Group as a whole and at the level of specific units and processes. The Bank allocates capital in respect of operational risk assets, on the basis of a standardized model defined by the Bank of Israel. Reports on compliance with risk-appetite limits are submitted on a quarterly basis, within the consolidated risk document.

The Bank uses quantitative measures of operational risk appetite that refer to the following parameters: extent of operational damages relative to gross income, according to the Basel standardized approach; rate of increase in damages from year to year; risk scenarios rated at a very high risk level at the level of the Bank Group; and assessment of stress scenarios.

3.5.2. Information technology risks

The Bank is dependent upon IT systems and infrastructures for its various activities. Information-technology risk is the risk of damage to the proper activity of the Bank and to customer service, loss, or damage to reputation, due to inadequacy or failure of the IT systems and infrastructures of the Bank. In general, the Bank maintains its information systems and infrastructures, adopts new technologies, and continually acts to provide technological infrastructures in order to allow the operation of its business and the promotion of strategic initiatives at the various divisions, in accordance with the information-technology management policy of the Bank. Dedicated policy documents exist at the Bank addressing information and cyber security aspects, and principles for backup and recovery in cases of malfunction or disaster, as well as policy documents on outsourcing, cloud computing, rules for the realization of new technologies within digital banking, and the management of IT risks. In addition, in order to cope with the challenges of the future, simplify and improve the efficiency of technological platforms, improve response capabilities, and build new abilities, the Bank is implementing a multi-year plan to modernize its central IT systems.

IT risks are examined routinely, based on accepted methodologies, on the level of material IT processes conducted at the Bank as well as on the level of the information systems and infrastructures used by the Bank. Risks arising from material IT processes are addressed as part of the control approach implemented at the Information Technology Area, by several dedicated professional units reporting to the management of the Area. These units act in accordance with the various regulatory guidelines; the units include the Information Systems Security and Cyber Defense Department, the Planning and Control Unit, the SM (Service Management) Process Management Unit, and the IT Risk Management Department.

3.5.3. Information security and cyber risks

Cyber risk is the risk of damage, including disruption, interruption, shutdown of operations, theft of property, information leak, collection of intelligence, or damage to reputation or the confidence of the public, as a result of a cyber event. Cyber activity is conducted as required in the directives of the Bank of Israel, including Proper Conduct of Banking Business Directive 361, "Cyber Defense Management"; Proper Conduct of Banking Business Directive 363, "Supply Chain"; the Protection of Privacy Law, 1981; and other laws, as relevant, with the aim of protecting the information-technology system and minimizing risks. Information security and cyber risks at the Bank are managed by the Information Security and Cyber Defense Unit in the Information Technology Division.

The sophistication and severity of cyber attacks on the global financial sector have escalated in recent years. Technological development trends such as cloud computing, openness to external interfaces, and the expansion of digital services, on one hand, and the advanced tools available to attackers, on the other hand, have led to higher exposure to cyber risks. The banking sector in Israel, including the Bank, regularly experiences cyber attacks, such as DDoS (distributed denial of service – attacks designed to shut down a computer system by overloading its resources), phishing (attempts to steal sensitive information through impersonation on the Internet), etc. The attacks target government and financial sector institutions, in an attempt to damage their reputation, as well as targeting supply chains (attacks on organizations through a supplier or product that they use). The Bank acts continually to draw conclusions and update its preparations accordingly. No material cyber events with an effect on the financial statements were discovered at the Bank in 2023. An increase has occurred in recent months, particularly since the outbreak of the war, in fraud attempts in the form of social engineering, which the Bank is addressing on several levels – technology, educational activities, and more.

The Bank is investing extensive resources (both human and technological) in strengthening its information security and cyber defense system, in order to cope with the development of these threats. The Bank's defense framework consists of layers of protection using advanced technologies. The Bank operates cyber defense processes in order to minimize the risk of penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and confidentiality of its databases. Concurrently, the Bank operates processes to discover and identify cyber events, at all times, including the operation of the Information Security Event Center. The Bank also prepares to contain cyber events and minimize damage to the assets of the Bank and its customers. The Bank continually works to identify targets to defend, threats, risks, and the effectiveness of defenses, and to build work plans for improvement of the defensive framework accordingly. The Bank also maintains continual dialogue with the Israel National Cyber Directorate and other relevant parties.

The Bank routinely updates its risk assessment in view of insights from cyber events in Israel and worldwide relevant to the systems and business of the Bank. The Bank also accords high importance to maintaining an organizational culture of risk management, and therefore takes various actions (such as lectures, messaging, and exercises at various levels) to raise employee awareness of cyber risks. The Bank updates its cyber risk assessment in accordance with the development of threats and takes comprehensive action to reduce this risk, particularly in view of employees' significant use of remote work, cloud computing, and more.
The Cyber Risk Management Unit in the Risk Management Division establishes indices and methodologies for the evaluation of the maturity of defenses, analyzes the business implications of cyber scenarios, challenges the defense system, and examines developments in the area of cyber risk relevant to the technological and business systems of the Bank.

3.5.4. Cloud computing risks

The Bank operates in accordance with Proper Conduct of Banking Business Directive 362. The Bank continues to apply cloud computing in certain areas, and is examining additional uses, with appropriate attention to the derived operational risks, and in accordance with regulatory guidelines, with the aim of allowing realization of the business advantages of the use of cloud-computing services while prudently managing the risks and complying with regulatory requirements.

3.5.5. Emergency preparedness

The Bank maintains and implements a continuous plan for emergency preparedness and business continuity (BCMP – business continuity management plan), in accordance with the policy of the Bank and the Bank of Israel's Directive 355, "Business Continuity Management"; Directive 357, "Information Technology Management"; and additional expansions. The Bank's preparedness is based on detailed action plans, working procedures, and periodic tests and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank conducted an enterprise-wide process to establish policies, define reference scenarios, map and analyze critical processes and the resources required for the recovery of such processes during an emergency (BIA), and update its action plans based on the prevalent methodologies globally. This process is updated routinely, and presented for approval on an annual basis. The action plan involves all divisions of the Bank, through divisional business continuity officers and designated teams. The BCMP is led by the Business Continuity Management Department, which is the professional entity responsible for guidance, supervision, and presentation of status on behalf of the Bank to the Board of Management and Board of Directors. The department reports to the Head of Business Continuity of the Bank and to the Head of the Emergency Committee of the Bank (the Head of Finance). The activity plan involves all divisions of the Bank; each division head is responsible during routine times for all aspects of business continuity plans in that division, including construction, maintenance, and regular updates of the plan, and in emergencies, is responsible for operating the division while maintaining critical business processes. The Business Continuity Risk Management and Operational Resilience Unit in the Risk Management Division serves as a second line of defense in the area of business continuity risks and emergency preparedness.

The business continuity policy has also been adopted by the subsidiaries and at the New York branch, in congruence with the corporate-governance policy and the guidelines of the Bank of Israel. In addition, the Bank holds periodic emergency drills covering complex operational, technological, and business scenarios, with the participation of the various units, from branches, units, and divisions to the Board of Management of the Bank. The Bank has a data center to ensure the availability and protection of its information systems and of the information itself. In addition, there is a secondary IT site as well as additional backups. The Israel Standards Institute has affirmed that the business continuity management system of the Bank complies with the requirements of the international standard ISO 22301.

As part of its preparedness for business continuity, the Bank is prepared to handle a range of possible scenarios. With respect to emergency scenarios that may cause the Bank to incur significant damage, red-alert systems are monitored and detailed contingency plans are in place. Stress scenarios are reviewed and discussed periodically by the Committee on Stress Scenarios and Risk Concentrations. The activation of a contingency plan is under the responsibility of the Board of Management or of the designated Board of Management committee responsible for the financial aspects of crisis situations; a charter for the establishment of such a committee is also part of the contingency plans.

Coping with real events and activating emergency plans, including convening and operating an emergency banking committee, occur when a potential emergency is identified and during the event until its conclusion. The Swords of Iron War, which began on October 7, 2023, led to the activation of the Bank's business continuity plans, as early as the first day of the war. Among other things, measures included convening emergency teams; the transition of headquarters employees to remote work; closure of a few branches in conflict zones, and redirection of customers and employees to remote activity or other locations; adaptations of activity at other branches; operation of mobile branches; and continuous guidance to strengthen preparedness, with no substantial impairment of operations. The Bank is continually examining the situation and adapting its activity, convening emergency committees as necessary, and preparing for additional scenarios of escalation of the war.

3.5.6. Insurance

The Bank has a banking insurance policy to hedge operational risks, which includes: (1) banking insurance to cover damages to the Bank that may arise from embezzlement by employees, loss of documents, forged documents, etc.; this policy includes coverage for damages due to computer crimes caused to the Bank and/or its customers as a result of penetration of the computer systems of the Bank by an unauthorized third party, (2) professional liability insurance, to protect against claims filed by customers regarding damage caused by negligent banking actions. These insurance policies are subject to exclusions common in insurance policies of banking corporations in Israel (including an exclusion of damage arising from violation of the directives related to money laundering and terrorism financing).

In addition, the insurance structure of the Bank also includes property insurance, third-party insurance, employers' liability insurance, directors' and officers' liability insurance, and additional insurance policies.

The liability limits and insurance amounts in the policies were established by the Bank based on an assessment of the risk involved in the activity of the Group, as part of its overall risk-management policy. Within the fulfillment of the Sound Practice requirements under the Basel guidelines, cooperation and exchanges of information are maintained between the Operational Risk Management Department and the unit that handles banking insurance.

For details regarding the settlement agreement with the insurers in connection with the investigation of the Bank Group's business with American customers and the FIFA affair, see Note 25 to the Financial Statements.

3.6. Compliance risk

Compliance risk is the risk of imposition of a legal or regulatory sanction, material financial loss, or reputational damage which the banking corporation may suffer as a result of a failure to comply with the compliance directives, as defined in Proper Conduct of Banking Business Directive 308.

Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism (including with respect to tax laws), provision of advice to customers, securities enforcement, protection of privacy (excluding information-technology aspects), the legislation in Israel for implementation of the FATCA and CRS directives, and taxation aspects relevant to products or services for customers, or directives of a similar nature.

Compliance risk also includes the risk of a breach of international sanctions and lists of designated parties. Addressing this risk involves monitoring, analyzing, and applying international sanctions and lists of designated parties, monitoring international money transfers, and monitoring the opening of customer accounts and banking activity therein. The Bank applies sanctions in accordance with the established policy.

Compliance risk also includes the reputational risk that accompanies failure to comply with such directives.

Compliance risk also encompasses risk related to the activity of the Bank with banks located in the Palestinian Authority, which requires the fulfillment of various regulatory requirements, in particular in connection with the prevention of money laundering and terrorism financing, and involves monitoring of fund transfers to and from residents of the Palestinian Authority.

The Bank terminated its activity with banks and branches located in the Gaza Strip at the beginning of 2009, after the government declared Gaza a hostile entity. Over the years, the Bank repeatedly notified the Bank of Israel and the Ministry of Finance that in view of the problems involved in the provision of banking services to Palestinian banks, the Bank wished to cease providing correspondent services to these banks.

In January 2018, the Bank received signed letters of immunity and indemnity from the Attorney General and the Ministry of Finance (respectively). The letter of immunity protects the Bank, its officers, and its employees from indictment in Israel for certain offenses related to money laundering and the prevention of terrorism financing in relation to services granted, or to be granted, by the Bank to Palestinian banks from March 28, 2016, to May 31, 2019 (the "Immunity and Indemnity Period"). Further to the letter of immunity, in January 2018, the Bank received a letter from the Supervisor of Banks in which she gave notice that no enforcement measures would be taken in all matters related to actions of the Bank in connection with the provision of correspondent services to which the letter of immunity applies.

In the letter of indemnity, the State of Israel made a commitment to indemnify the Bank, in an amount up to NIS 1.5 billion, for expenses (liability according to a verdict and legal expenses) borne by the Bank, within civil proceedings or criminal proceedings that do not end in a conviction, prosecuted against the Bank or an officer or employee thereof in connection with the provision of the correspondent services during the Immunity and Indemnity Period. The immunity and indemnity commitments granted to the Bank, as noted, are subject to reservations stated therein and to conditions that the Bank must fulfill.

In light of the request of the State to postpone the termination of correspondent services until the implementation of a long-term solution for the provision of correspondent services, through the establishment of a government company to provide Palestinian banks with these services, an updated letter of indemnity was issued on June 30, 2019. Pursuant to the updated letter of indemnity, the indemnity to which the State has committed towards the Bank, as detailed above, has been amended to an amount of up to NIS 1.5 billion in respect of each proceeding (not cumulatively). The letter of indemnity and the letter of immunity are extended from time to time; the most recent extension received is until March 31, 2024.

The Swords of Iron War and the state of emergency are intensifying compliance risks arising from terrorism financing and money laundering. The compliance function at the Bank has adapted its activity to the state of emergency and war, through a series of measures focused, among other matters, on the risks arising from the current situation.

The Bank applies a policy of compliance with all legal and regulatory directives, and works to instill this policy at its units and among its employees. For the purposes of risk management, the key compliance risks against which the Bank seeks to defend itself can be described as the following:

- The risk of material damage arising from a regulatory order of any government agency due to noncompliance of the Bank, or of any of its employees, with directives concerning the prohibition of money laundering and terrorism financing, or deficiencies in processes designed to ensure such compliance, or the absence of such processes;
- The risk of material damage arising from failure to uphold international sanctions, due to a deficiency or error in the completeness of data or in the interpretation of the sanctions or the scope thereof.
- The risk of material damage arising from a regulatory order of a regulatory agency due to improper, unfair, irresponsible, or unethical activity of the Bank or of any of its employees in relation to customers of the Bank or with regard to tax issues, or noncompliance with legal directives in these contexts;
- The risk of material damage arising from a regulatory order of a regulatory agency due to noncompliance of the Bank or of any of its employees with securities laws;
- The risk of material damage arising from a class-action suit due to noncompliance with directives that regulate the bank-customer relationship;
- The risk of material damage arising from claims or regulatory orders due to inappropriate, irresponsible, unethical, or unworthy conduct of any of the employees of the Bank;
- The risk of a criminal suit against the Bank or against its senior executives due to noncompliance with the law;

- The risk of material damage due to noncompliance with or breach of the agreements of the Bank with the United States authorities of April 30, 2020, which include additional designated actions and commitments in this area, as detailed in Notes 25.D and 25.E concerning contingent liabilities and special commitments and on the website of the Bank.

Risk indicators are used, among other means, to identify key areas of compliance risk and to monitor their development. The key risk areas and the intensity of the risks arising from these areas may change in accordance with changes in regulation, enforcement, the activity of the Bank and of its customers, market developments, etc. The Bank uses quantitative and qualitative indicators to measure this risk. These include developments in regulation and enforcement, changes in customers and in certain products, findings of controls and audits, gap surveys, and more.

The Chief Compliance Officer of the Bank serves in this position, pursuant to Proper Conduct of Banking Business Directive 308, among other matters, as the officer responsible for the duties set forth in the Prohibition of Money Laundering and Prevention of Terrorism Financing Law; as the supervisor of securities enforcement, pursuant to the Law for More Efficient Enforcement Procedures at the Israel Securities Authority; and as the responsible officer pursuant to FATCA and QI. The Chief Compliance Officer and Securities Enforcement Unit consists of the Anti-Money Laundering and Terrorism Financing Unit; the Securities Enforcement Unit; the International Compliance Unit; the Customer Relations, Consumer Protection Directives, and Subsidiaries Unit; the International Taxation Compliance Unit; the Privacy Protection, Competition, and Prevention of Conflicts of Interest, Discrimination, Bribery, and Corruption Unit; the Hetz Center Expert Unit; and the Coordination and Monitoring Unit.

The mission of the Chief Compliance Officer Unit is to support the achievement of the Group's strategic and business objectives, while minimizing exposure to compliance and reputational risks. The objectives of the Chief Compliance Officer Unit are:

- To lead a policy of full implementation of legislation at all units of the Bank, in Israel and worldwide, with an understanding of the needs of the business units and support for their activity;
- To use a risk-based approach to identify, document, and actively assess compliance risks inherent in the business operations of the Bank;
- To monitor and examine compliance in the Bank Group through sample testing, and to report the findings to the organs of the Bank.

The responsibility for routine management of the compliance aspects of risk at the Bank and for the execution of activities aimed at minimizing this risk lies with the division heads and the managers of subsidiaries in the Bank Group. Professional responsibility in this field, as a second line of defense, rests with the Chief Compliance Officer Unit in the Risk Management Division. Routine activity is conducted at the Bank's units and in the Group by a network of compliance officers, based on the matrix management principle, with organizational subordination to division heads or CEOs of subsidiaries and professional subordination to the Chief Compliance Officer Unit.

The activity of the Chief Compliance Officer and Securities Enforcement Unit is supervised within corporate governance, through:

- The Board of Directors' Committee on Risk Management and Control;
- The Board of Management of the Bank, headed by the CEO;

- Quarterly reports to senior management and to the Board of Directors on compliance issues.

The compliance policy of the Group sets rules regarding all of the component areas of the compliance issues described above. This policy includes rules regarding corporate governance and the interaction with subsidiaries and the New York branch, and is based on legislation and regulation in Israel and in the relevant locations. The Bank Group has established infrastructure to oversee the disclosure requirements with respect to individuals and corporations in the context of FATCA, and is continuing the process of automating the requirements arising from this legislation and from the Israeli regulation in this area. Similarly, the Bank Group has established infrastructure to address disclosure requirements with respect to individuals and corporations in the area of CRS. The Israeli law requires financial institutions in Israel to report financial accounts of customers with foreign tax residency, within the CRS information exchange treaty signed by Israel. The Bank has also established an overall policy of declared funds, including with regard to foreign-resident customers, aimed at reducing exposure to the presence of unreported funds in the accounts of foreign residents throughout the Bank Group.

With regard to the resolutions with the United States authorities in connection with the tax investigation and the FIFA affair, see Note 25.E to the Financial Statements.

3.7. Legal risk

Legal risk includes, among other matters, legal claims, rulings, inability to enforce contracts, and exposure to fines, penalties, or enforcement measures as a result of supervisory actions and private settlements that may disrupt or adversely affect the activity of the Bank Group. The Group is assisted by internal and external legal counsel in order to contend with this risk.

The Bank takes a broad approach to legal risks, such that these risks encompass risks arising from primary and secondary legislation and regulatory directives, including risks arising from a lack of knowledge regarding the directives of local or foreign law applicable to the activity of the Bank or of the Group, or misinterpretation thereof; rulings of courts, tribunals, and other entities with quasi-judicial authority; actions that are not backed by legal counsel; flawed legal counsel; and risks arising from legal proceedings.

Legal risk is managed in accordance with the legal risk exposure management policy document, which is updated and applied on the level of the Group.

Each quarter, legal counsel submits various reports to the Board of Management and Board of Directors regarding legal risks, including statistical information with regard to the various types of legal proceedings opened or concluded during the relevant period.

For additional information regarding contingent liabilities and special commitments, see Note 25 to the Financial Statements.

3.8. Reputational risk

Reputational risk is defined as present or future risk of damage to income or capital as a result of a negative image in the eyes of relevant stakeholders, such as customers, parties to transactions, shareholders, investors, or regulatory agencies. This risk, which usually accompanies other activities and other risks, may materialize in various ways, such as loss of customers, new regulation, and more.

The reputational risk management policy of the Bank Group has been approved by the Board of Management and the Board of Directors, and is implemented by the units of the Group.

The reputational risk management strategy of the Bank Group states that reputational risks should be prevented, minimized, and controlled. Accordingly, group-wide goals have been set with respect to reputational risk – specifically, ensuring effective supervision and management of reputational risk and establishing a framework of internal control. The Marketing and Advertising Administration is the overseeing function in the first line of defense, and the Risk Management Division is the second line of defense in this area, with the aim of promoting a culture and values of awareness, transparency, and efficiency in addressing reputational risks.

The framework for the management of reputational risk includes, among other matters, mapping, monitoring, and addressing material risk centers by the Reputational Risk Committee, which convenes periodically; KRI monitoring; reputational risk surveys; and an annual dedicated discussion. The Board of Directors and the Board of Management are responsible for promoting high standards of ethics and integrity and for establishing a culture that emphasizes the importance of internal controls.

3.9. Regulatory risk

Regulatory risk refers to regulatory directives that are not yet in effect, and is reflected in two main aspects:

- Lack of preparation for the implementation of a directive, or partial preparation for the implementation of a binding regulatory directive.
- A heavier regulatory burden that may impair the ability of the Bank to meet its obligations, realize and maximize its business objectives, or offer and deliver certain banking services, and/or may require preparation for complex and lengthy implementation and resource-intensive technological and other investments involving significant costs.

Regulation and supervision of the activity of the banking corporation

The Bank operates within a complex regulatory environment, characterized by frequent changes and uncertainty. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Banking Supervision Department constitute the central legal foundation for the Bank Group's activity. Among other matters, they specify the regulatory requirements applicable to the activity of the Bank and to the subsidiaries and affiliates of the Bank Group.

The activity of the Bank is also subject to regulatory requirements of additional regulators in specific areas of activity, such as the Israel Securities Authority; the Capital Market, Insurance, and Savings Authority; the Privacy Protection Authority; the Money Laundering Prohibition Authority; the Competition Authority; etc.

The Bank and its subsidiaries operate and manage ordered, dedicated work processes to map and identify all regulatory amendments that are expected to apply to them, and to adapt their operations to all relevant laws.

Regulatory risk management methods

The Regulation Unit assesses and manages regulatory risks by monitoring, identifying, collecting information, assessing, reporting, conducting follow-ups, and applying controls with respect to regulatory developments, as they emerge. The unit serves as the liaison between the internal units of the Bank and the regulator during the formulation of legislation, with the aim of giving voice to and reflecting the opinion of the relevant professionals, prior to the formulation of the regulatory directive. The unit also supplies opinions, as relevant, with regard to the effect of forthcoming regulation on the expected business conduct of the various units of the Bank. The unit operates in full cooperation with the relevant professional units of the Bank, and with the subsidiaries and offices in Israel and overseas, in order to ensure that all regulatory requirements are implemented fully and optimally. With regard to compliance with regulatory directives from the inception of the regulation, see the section "Compliance risk," above.

The Regulation Unit also conducts procedures to routinely monitor significant amendments of international regulation in areas that may affect the activity of the Bank in Israel, and to examine the need for the Bank, its subsidiaries, and/or its overseas offices to implement such amendments.

For details regarding the development of this risk, see the section "Top and emerging risks," above.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see the Corporate Governance Report.

3.10. Economic risk

Risk factors in the economic environment are identified by the Economics Department, which tracks current economic and financial data in Israel and worldwide and professionally evaluates the implications of the data. The department maps potential risks in the economy and in the financial markets, and reports to the relevant teams and committees.

Concurrently, the department prepares a set of stress scenarios with a possible but low probability of future materialization, which in its opinion may have significant economic and financial consequences for the economy and for the Bank. The stress scenarios are updated annually, according to the risk map, and approved by the authorized parties, in accordance with procedures. The Economics Department also examines a series of warning indicators that may signal an increase in the probability of a stress scenario. Warning indicators are reported routinely to the Board of Management Committee on Risk Management.

The Bank translates the market conditions in the scenarios into the impact on its business activity, according to the various risk areas, and examines the effect on its profitability, capital, and capital adequacy, while monitoring risks and segments that may be affected by economic changes in Israel and worldwide, and adapting its policies and control activities as necessary. Among other factors, the Bank examines the securities in its investment portfolio in Israel and overseas, its exposure to foreign financial institutions, and risk centers in the credit portfolio that may be influenced by such developments, and routinely complies with the liquidity requirements, as required by the supervisory directives.

For details regarding conditions in the Israeli and global economy, see the section "Economic and financial review," above.

3.11. Strategic risk

Strategic risk is the risk of material present and/or future change in profits, capital, reputation, status, and/or other material aspects as a result of a combination of one or more of the following factors: changes in the business environment; faulty business decisions; strategy and strategic goals unaligned with the organization and the environment in which it operates; improper implementation of strategy; failure to respond to changes in the industry, economy, or technology; and other factors that generate this risk.

Strategic risk is a function of the congruence (or non-congruence) of the organization's strategic goals with the environment in which it operates, the adaptation of the business plans developed to achieve these goals, resource allocation, and quality of implementation. As such, this risk constitutes forward-looking information.

The strategic plan of the Bank is a multi-annual plan approved by the Board of Management and the Board of Directors, and examined and adjusted annually to changes in the business environment in Israel and globally, changes in the Bank's competitive environment, and changes in the Bank's objectives. The strategic plan was updated in 2022, with the assistance of a leading international consulting firm; the Bank is acting to implement the plan. In 2023, the Poalim 2026 plan was examined in view of the changes in the business environment and the emphases for 2024, and the actions to be taken going forward were fine-tuned.

The process of formulating the strategic plan encompasses a general examination of the corporation's business and the relevant strategic risks, and a comprehensive planning process. Within the annual planning process, the Board of Management of the Bank examines the future competitive landscape, and builds strategic plans accordingly, in order to respond by preparing as necessary for this future.

The annual strategic planning process consists of three main stages, each of which addresses a different aspect of strategic risk management and assessment:

Stage 1 – Identification of the strategic risks to the Bank in its competitive environment. Examination of the factors influencing the Bank's competitive ability and future growth potential, including an examination of global and local trends and the current situation at the Bank. In this stage, according to the findings, the Board of Management and the Board of Directors establish the key strategic objectives as well as additional emphases to be addressed during the preparation of the strategic plans.

Stage 2 – Formulation and approval of the strategic plan. The Bank formulates all of its strategic plans in accordance with the strategic emphases established, synchronized with the financial objectives, taking risk aspects into consideration. The activity is challenged by the Risk Management Division.

Stage 3 – Implementation of strategic planning. The strategy of the Bank is embedded in the strategic map of the BSC (Balanced Score Card) methodology. The strategic emphases and plans of the Bank are reflected in the BSC map. The BSC map consists of measurable metrics and targets derived from the strategic goals, designed to motivate the behavior and performance of the various units, and used to monitor the implementation of the strategic plan and track strategic risk. Significant deviation from the objectives established in the BSC map may be an indication of partial implementation of the strategic plan, and therefore raises concern over an increase in strategic risk.

3.12. Environmental risk

Environmental risks

Based on the definitions of the Network for Greening the Financial System (NGFS) and the respective definitions of the Banking Supervision Department at the Bank of Israel, the term environmental risks refers to risks that derive from the exposure of a financial institution and/or the financial sector to activities that have the potential to cause environmental degradation, such as air and water pollution, ground pollution, loss of biodiversity, deforestation, and loss of ecosystems, or to be affected by such degradation.

- Environmental risks may have financial and non-financial impacts on banking corporations, and may take a form linked to the various other risks which the banking corporations manage routinely, such as credit risk. Such risks may be realized in various ways; for example, if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard. This risk may also materialize indirectly, as a result of deterioration of the financial condition of a borrower or an investment due to environmental costs arising from compliance with directives related to the protection of the environment, or damages due to the breach of such directives. Reputational risk may also materialize as a result of the attribution to the Bank of a direct or indirect connection with the cause of an environmental hazard in the course of its business operations.
- Environmental risk management is part of the management of overall credit and investment risks at the Bank. In order to address the effect of environmental risk on the credit risk of large corporate borrowers and on investment risk in large investments, the Bank has established a framework to identify, specify, and manage environmental risks. The methodology for the identification of environmental risks includes, among other things, mapping of potential environmental risk by economic sector. In addition, environmental risk aspects are analyzed and addressed at the level of the individual borrower or investment in the course of review and approval processes for large credit applications or investment requests in sectors identified as exposed to heightened environmental risk, such as mining and quarrying, industry, energy production, sewage services, waste treatment and purification, and other sectors, as well as within the routine management of the risk.
- Alongside the management of exposure to environmental risk in its credit and investment activity, the Bank has formulated a comprehensive, ordered environmental policy in connection with its operational activities. In addition, as part of the process of managing and assessing its environmental conduct, the Bank has received certification under the ISO 14001 standard, which is revalidated annually, in a comprehensive review by a licensed international firm. An extensive description of activities in connection with the environment is presented in the Bank's ESG Report, which is published annually.
- The Bank, or any senior officer of the Bank, was not a party, during the reported period, to any material legal or administrative proceedings related to the protection of the environment.

Climate risks

The climate crisis is occupying an ever-growing position on the global agenda. Climate change creates harmful effects and risks referred to as climate risks. While there is some connection and overlap between climate risks and environmental risks in the classic sense referred to above, they are not identical.

- According to the NGFS, and subsequently the Banking Supervision Department in Israel, climate risks for a financial institution are risks arising from its exposure to risks caused by or related to climate change:
  - Physical risks – Risks resulting from acute climate events (extreme events), such as floods, storms, heat/cold waves, and wildfires, and/or chronic processes with gradual development over time, such as rising temperatures, decreasing precipitation and desertification, rising sea levels, and others.
  - Transition risks – Risks that arise due to disruptions caused in the process of transforming and adapting the global economy from an economy based on carbon dioxide and other greenhouse gas emission intensive activities to a low/zero emissions economy. Factors driving this process are changes in regulation, legislation, and government policies; technological changes; market changes and changes in consumer preferences; changes in the area of litigation; and more.
- Climate risks may be reflected in the various traditional financial risks accompanying the routine operations of the Bank, such as credit risk, market risk, operational risk, liquidity risk, and other risks, through various micro- and macroeconomic transmission channels, which may have an adverse effect on the financial robustness of businesses, households, and the economy in general, as well as other risks to the Bank such as reputational risk, regulatory risk, legal risk, and more. Climate risk is considered a complex and evolving field, in that it comprises, among other matters, systemic risk on a broad, unprecedented global scale; the period in which it may materialize is far longer than the usual range of business planning for banks; and it is characterized by material uncertainty.
- In June 2023, the Bank of Israel issued Proper Conduct of Banking Business Directive 345, "Principles for Effective Management of Climate-Related Financial Risks," which adopts, in practice, the document of principles issued by the Basel Committee on Banking Supervision (BCBS) in June 2022. The inception of the directive has been scheduled for June 2025.
- The Bank recognizes the importance and centrality of the issue of climate change and the potential negative ramifications it may have for the Bank, in terms of exposure to financial and other risks, and closely monitors the developments in banking regulation and practice in this area. Since 2021, the Bank has included environmental risk, with an emphasis on climate risk, in its list of emerging risks; however, at this stage, in relation to the other risks to which the Bank is exposed, the risk is not classified as material. See the section "Top and emerging risks," above. At this stage, it is too early to estimate the potential long-term effect of climate risks on the Bank. With regard to risks in the short term, the initial assessment of the Bank is that it does not have material financial exposures derived from the materialization of physical risks or transition risks, and that its principal exposure in this range is concentrated in the area of reputational risk incidental to its exposure to transition risk in the corporate credit portfolio.

- In terms of the identification and assessment of exposure to climate risks, the Bank is currently operating based on the estimate that in the financial planning time horizon (1-3 years), the exposure is primarily in the context of the credit portfolio, specifically to transition risk. Although Israel is located in a climate hotspot, the Bank has had very limited experience up to this point with vulnerability to acute physical risks; moreover, this risk may materialize without warning. With respect to chronic physical risks, the approach is that the range for materialization of these risks is longer, rather than imminent.
- In connection with the assessment of transition risk in the corporate credit portfolio, the Bank performed a process to identify and classify focus areas of economic activity, based on economic sectors exposed to heightened inherent transition risk, due to potential disruptions of their business model and consequent impacts on their financial robustness resulting from the process of transition to a low/zero carbon emissions economy. The areas identified are characterized by greenhouse-gas emissions intensity across the value chain of the product/service, and account for a material proportion of the global sources of these emissions. The following table presents economic sectors classified in the heat map as having heightened inherent financial exposure to transition risks as a percentage of total credit risk balances at the Bank (stand-alone).

Table 3-32: Credit risk in economic sectors with heightened inherent transition to a low/zero carbon emissions economy risk – Bank[1][2]

	Fossil fuel sector[3]	Electricity and gas supply[4]	Transportation and shipping[5]	Chemical industries, rubber and plastic, cement, and steel[6]	Total credit risk in economic sectors with heightened transition risk
	Percentage of total credit risk in and outside Israel				
December 31, 2023	**0.85%**	**1.22%**	**3.01%**	**0.96%**	**6.04%**
December 31, 2022	1.06%	1.12%	3.07%	1.07%	6.32%

(1) Balance sheet and off-balance sheet credit risk, as defined in the table "Credit risk by economic sector" in the section "Credit risk," above.

(2) The data are based on the classification of customers into economic sectors at the Bank. This classification does not unequivocally identify areas with relevance to the conceptual field of climate risk, or transition risk specifically. Thus, for example, the activity of companies in the area of cement, steel, electric vehicles, or electricity production based on renewable energies is not specifically identified in the economic sectors. The data presented are therefore skewed upward to a certain extent.
The heat map is the basis for relatively simple and quick identification of risk centers. However, the heat map and the data presented above do not reflect a risk assessment with respect to specific borrowers or investments, which may be higher or lower than the assessment at the level of the sector, depending on the specific adaptation measures undertaken by each borrower or investment. The Bank does not expect risk in the focus areas of heightened transition risk exposure to materialize in the immediate term to a material extent, and does not believe that the materialization of this risk, if it occurs, would occur simultaneously across sectors.

(3) The value chain of the fossil fuel sector (coal, oil, and natural gas): the economic sectors of crude oil and natural gas production (including building infrastructures), coal mining and production (negligible exposure), refined fuel and crude oil product industries, and retail fuel sales.

(4) The economic sector of supply of electricity, gas, steam, and air conditioning (including building of infrastructures), excluding financing in the area of renewable energies.

(5) The economic sectors of land transport, air transport, marine transport; vehicle sales, maintenance, and repair; operating leases and rental of vehicles; and bus, taxi, train, and cable-car services.

(6) The economic sectors of the chemicals and chemical products industry, rubber and plastic products industry, basic metals industry, and other types of mining and quarrying.

- In 2023, the Bank conducted an initial trial of analysis of an acute physical climate risk scenario, concerning exposure to an extreme flooding event of collateral for the housing-loan portfolio and the portfolio of corporate credit secured by real estate, and analysis of the effects of NGFS scenarios concerning the risks of orderly transition to net-zero and disorderly transition to net-zero on losses in the corporate credit portfolio, based on assumptions, limits, and various approximations. The results of the initial analyses indicated relatively low exposure.
- As part of the business continuity management system of the Bank with reference to physical climate risks, the Bank includes reference to and preparation for extreme weather in its framework of reference scenarios, addressing the aspects of flooding and fires, based on the estimate that such events may have a material impact on the functioning of the Bank, primarily in the regions of Jerusalem, Gush Dan, and the Coastal Plain.
- In October 2023, the Bank released its first climate report, describing the way the Bank manages its preparations for climate change in light of the risks and opportunities derived from these changes. The report was written according to the requirements of the TCFD reporting standard. The report also contains the results of the measurement of the carbon footprint of the Bank's corporate credit activity in 2021-2022, according to the PCAF standard, the leading global accounting methodology today for measuring and reporting greenhouse gas emissions intensity in the financial sector.
- Climate risk management is an important element of the ESG strategy of the Bank for the support of decarbonization. The Bank has established goals for 2030 regarding aspects of the promotion of a green environment and coping with climate change. For key ESG metrics and goals for 2030, including climate and environmental goals, see the section "Key environmental, social, and governance (ESG) indicators," above.

3.13. Model risk

Model risk is the risk of adverse consequences, which may take the form of monetary loss or non-financial impacts (incorrect business and/or strategic decisions, damage to the firm's reputation, etc.), resulting from decisions based on incorrect or inappropriate use of model outputs. The sources of this risk are possible deficiencies in input data, development methodology, technological implementation, and business use.

In June 2023, the Banking Supervision Department issued a draft Proper Conduct of Banking Business Directive on the subject of model risk management, regulating the principal aspects of the effective management of model risks. The Bank is examining the implications of the directive, and will adjust the current framework according to the directive.

The model risk of the Group is managed by a dedicated, independent risk management unit, which serves as the second line of defense for this risk. The Group policy on model risk, development, and model validation has been approved by the Board of Management and Board of Directors of the Bank. The Group policy establishes principles for the management of model risk. Model risk management encompasses independent validation, monitoring of risk-mitigation activities conducted by the various units, specification of roles, definition of risk appetite, and assessment of aggregate risk. Pursuant to the directive of the Bank of Israel of 2011, all models in use at the Bank require independent validation.

In light of the increase in uncertainty due to the Swords of Iron War, and as a result of changes in macroeconomic factors, such as changes in interest rates in the last two years, the potential risk of the use of models has risen relative to routine periods. Therefore, to identify weaknesses and mitigate risk in the models, monitoring of model risk was increased in the relevant models. As of the end of 2023, there are no models that require a model risk update by the Bank, revision, or suspension due to the war.

The developments in the use of data and models in the banking industry and the growing reliance on models as part of the work plans of the Bank are expected to contribute to the increase in model risk, and pose challenges in the area of model risk management and new model development. The work plan of the Group reflects ways of addressing these challenges.

3.14. Severity of risk factors

Pursuant to the directive of the Bank of Israel, the principal risk factors to which the Group is exposed have been mapped. The risk factors and the estimates of the Board of Management regarding the severity of risk of each factor are listed in the following table. The severity of risk factors is examined based on quantitative analysis of scenarios and estimates of the extent of the effect on profitability and/or on capital, and based on a qualitative evaluation, taking into consideration data regarding the capital and profitability of the Bank at the date of the report and expected in the coming years. The methodology and the quantitative thresholds relevant to the classification of severity levels were updated beginning with this report. Definitions of the severity levels of the risk factors consist of five severity levels for each risk factor: low, low-medium, medium, medium-high, and high.

In order to quantify the effect of the risk factors on the Bank's profit and capital ratio, systemic stress scenarios and single-risk-factor scenarios are examined for most of the risks, and the scenario with the more severe effect is used as the basis for determining the level of the effect of the risk factor, in combination with a qualitative assessment.

Each risk factor listed in the table below was tested in its own right, under an assumption of independence of each risk factor relative to the other risk factors listed in the table. However, for the risk factors "condition of the global economy" and "condition of the Israeli economy" in the table, systemic scenarios were tested to estimate the effect on profit and on the capital ratio of the combination of a number of risk factors. It is emphasized that the risk scenarios simulate a situation in which unexpected damages materialize beyond the expected level of damage events in the regular course of the Group's business.

The uncertainty in the economy due to economic and other processes escalated significantly with the outbreak of the Swords of Iron War; uncertainty is high with regard to the development, scope, and duration of the fighting. There is therefore high uncertainty with regard to the extent of the effect of the war on the various economic sectors, the customers of the Bank, and the Bank itself, while the government's support, the extent of which is unknown at this stage, also has potential economic effects.

Table 3-33: Severity of risk factors

	Risk factor	Risk effect
	Financial risks	
1.	Credit risk (including counterparty risk)*	Medium-High
1.1	Of which: risk in respect of the quality of borrowers and/or collateral*	Medium-High
1.2	Of which: risk in respect of sector concentration/exposure to credit in the construction and real-estate sectors*	Medium-High
1.3	Of which: risk in respect of concentration of borrowers/borrower groups	Medium
2.	Market risk	Low-Medium
2.1	Of which: interest-rate risk	Low-Medium
2.2	Of which: inflation risk/exchange-rate risk	Low
3.	Share price and credit spread risk	Low-Medium
4.	Liquidity risk	Low-Medium
	Operational and legal risks	
5.	Operational risk	Medium
5.1	Of which: cyber risk	Medium
5.2	Of which: IT risk	Medium
6.	Legal risk	Low-Medium
	Other risks	
7.	Reputational risk	Low-Medium
8.	Strategic and competitive risk	Medium
9.	Regulatory and legislative risk	Medium
10.	Economic risk – condition of the Israeli economy**	Medium-High
11.	Economic risk – condition of the global economy	Medium
12.	Compliance risk	Medium
13.	Model risk	Medium

* The level of credit risk, including the level of risk in respect of borrower and/or collateral quality and the level of risk in respect of sector concentration/exposure to credit in the construction and real-estate sectors, rose to Medium-High in the third quarter of 2023, due to the expected effects of the Swords of Iron War, in addition to the worsening of economic conditions observed in the preceding quarters, which was influenced by the increase in the interest rate. In light of the continued fighting and its effect on the economy, the Bank is maintaining the risk at this level. For further information, see the section "Impacts of the Swords of Iron War" and the section "Credit risk," above.

** The risk level was raised in the second quarter of 2023, in view of the potential aggregate effect of the developments in the local economy, the forecasts of a global economic slowdown, and the impacts of the progression of the legislative procedures on judicial matters in the absence of a broad consensus on the credit rating of the state, combined with proposed regulatory changes, particularly in the area of banking. The Swords of Iron War has led to the reduction of these risks, but also to worsening economic conditions, a high fiscal deficit, evacuation of populations at the beginning of the war, and the call-up of reserve military forces, which will be maintained to a certain extent over a long period. At this stage, it is not possible to estimate the duration or development of the war, the duration and future extent of government support, or the impact of the war on the Israeli economy, the customers of the Bank, and the Bank itself. Accordingly, the Bank maintained its assessment at Medium-High in the third and fourth quarters of 2023. For further details, see also the section "Top and emerging risks" and the section "Impacts of the Swords of Iron War," above.

4. Critical accounting policies and estimates; controls and procedures

4.1. Critical accounting policies and estimates

The financial statements of the Bank are prepared in accordance with accounting principles and rules, the main points of which are described in Note 1 to the Annual Financial Statements as at December 31, 2023. In implementing the accounting principles, the Board of Management of the Bank uses various assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities) and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

Some of these estimates and evaluations involve a considerable degree of uncertainty, and can be affected by possible future changes. Such estimates and evaluations in which changes may have a material effect on the financial results presented in the financial statements are considered by the Bank to be estimates and evaluations on "critical" matters. The Bank's Board of Management is of the opinion that the estimates and evaluations applied during the preparation of the financial statements are fair, and were made to the best of its knowledge and professional judgment.

Details of estimates and evaluations deemed critical by the Bank:

Allowance for credit losses

The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (ASC 326) as of January 1, 2022. Following the implementation of these principles, the allowance for credit losses is calculated based on the expected loss over the lifetime of the credit. In addition, the estimate of the allowance for credit losses involves significant use of forward-looking information, which reflects reasonable, supported forecasts of future economic events. Orderly work processes are used at the Bank to determine the appropriateness of classifications and allowances, and decisions are made according to approved authorizations.

The allowance for credit losses is calculated for loans and off-balance sheet credit exposures, and also for bonds held to maturity and other financial assets measured at amortized cost.

In general, the calculation of the allowance for expected credit losses is assessed on a collective basis when the assets have similar risk characteristics. These characteristics include, at the level of the customer and the transaction, among others: (1) internal or external credit ratings; (2) the extent and types of collateral allocated to the transaction; (3) the lifetime of the credit; (4) the type of financial asset. For housing credit, the time since the date of origination of the transaction is also taken into account.

The Bank estimates expected credit losses using an advanced method based on an economic estimate of the lifetime expected loss, through an estimate of the components of the credit loss: probability of default (PD), loss given default (LGD), and the balance of credit, taking into account repayments and future utilization of off-balance sheet credit facilities (exposure at default – EAD), including macroeconomic adjustments and adjustments in respect of qualitative factors.

Data in this method are primarily based on existing internal information at the Bank; in cases of information limitations, expert evaluations were included.

Macroeconomic adjustments are based on forecasts of the Bank regarding macroeconomic parameters including unemployment rates, the consumer price index, the housing price index, gross national product, private consumption, and average wages. In addition, macroeconomic adjustments were applied due to the impacts of the war. For further details, see the section "Credit risk," above.

Adjustments to the model in respect of qualitative factors refer, among other matters, to political and environmental attributes; rapid growth in credit; lending policies and procedures of the Bank, including changes in lending strategy; underwriting processes; and additional factors.

Each quarter, a process is conducted to identify customers with problematic potential, based on defined criteria, and all borrowers on watch lists and/or classified as problematic are examined individually.

When the Bank finds that a financial asset does not have shared risk characteristics similar to the risk characteristics of other financial assets, the Bank assesses the allowance for credit losses in respect of such assets on an individual basis. These financial assets primarily include non-accruing commercial credit with a contractual balance greater than NIS 1 million. The individual allowance for credit losses is made on the basis of the Board of Management's estimate of the losses inherent in the credit portfolio, including off-balance sheet items. The Board of Management bases the evaluation process on numerous considerations and estimates. The individual examination addresses the condition of the borrower's business, cash flows from the borrower's business, the value and expected realization date of existing collateral, the value and realization date of third-party guarantees, etc. The recoverable amount is assessed according to this examination, and a determination is made, accordingly, regarding the appropriate classification of the debt and the individual allowance for credit losses, which constitutes the difference between the amount of credit given to the borrower and the total amount that can be collected from the borrower, discounted by the original interest rate of the debt, or the net fair value of the collateral provided against the debt, at every reporting date.

In addition, the Bank is required to estimate the volume of debt that cannot be collected via prolonged collection efforts (defined in most cases as a period exceeding two years), and perform charge-offs in respect of such debt.

Some of the data that form the foundation for the individual examination are based on estimates and evaluations, and dependent upon economic variables that are not under the Bank's control, such as the condition of the Israeli economy and global markets, markets for companies' operations and products, interest rates, conditions in the capital market, prices of real estate and other assets, demand in the industry in Israel and worldwide, and more. The recoverable amount is determined by applying safety margins aimed at addressing situations of uncertainty regarding the ability to repay the debt and the value of collateral. However, because economic and other variables are involved, there is no certainty that the amounts actually received will be identical to the estimates established.

In this context, note that the Bank applies the directive of the Bank of Israel regarding the primary source of repayment, pursuant to which the determination of the appropriate classification for a debt, until default occurs, or until the probability of expected default becomes high, is based on the expected strength of the primary source of repayment of the debt (a current cash-flow based, stable, separate source that is under the borrower's control), notwithstanding the support of secondary and tertiary sources of repayment.

Fair value measurements

Some of the financial instruments in which the Bank operates, including bonds in the available-for-sale portfolio, securities in the portfolio held for trading, shares not held for trading with readily determinable fair value, and derivative financial instruments, are measured in the financial statements at fair value. The fair value of a financial instrument is defined as the price that would be obtained from the sale of an asset, or that would be paid to transfer a liability, in an orderly transaction between market participants at the measurement date, i.e. in a transaction that is not a forced sale or a sale in the course of liquidation. Maximum use is made of observable inputs in assessing fair value. Observable inputs represent information available in the market and received from independent sources. When no observable inputs are available for the measurement of fair value, unobservable inputs are used. These data reflect the assumptions of the Bank, and include models that take the risk inherent in the financial instrument into consideration (market risk, credit risk, etc.).

These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities.
- Level 2 data: Directly or indirectly observable inputs regarding an asset or liability other than quoted prices included in Level 1.
- Level 3 data: Unobservable inputs regarding an asset or liability.

The hierarchy requires the use of observable market inputs when such information is available. When the inputs used to measure fair value are classified into different levels of the fair-value hierarchy, the Bank classifies the overall fair-value measurement at the lowest level of an input significant for the overall measurement.

The Bank exercises appropriate professional judgment in establishing fair values. Towards that end, the Bank has formulated a plan for the definition of a structured, ordered process for the establishment of fair value. The process encompasses four independent functions:

- The business function – The party responsible for the management of the financial instrument.
- The validation function – The party responsible for validating the models for the fair-value calculation and validating the data and assumptions used in the calculation.
- The control function – The party responsible for applying routine controls to the process of establishing fair value.
- The supervision function – The party responsible for supervising the proper implementation of the process of establishing fair value.

The Bank has also established a limit according to which the Bank shall not enter into a new type of financial instrument in a material amount, or increase the amount of an existing type, if no structured procedure exists for establishing its fair value at a reasonable degree of confidence (hereinafter: "Exceptional Instruments"). It was further established that in cases in which the volume of the Exceptional Instruments reaches 75% of the limit that has been set, the Board of Directors and the Board of Management Committee on Risk Management shall be notified, and the committee shall formulate a plan to reduce the volume of the Exceptional Instruments.

The fair value of bonds traded overseas is based on price quotes from international price suppliers, which are independent of the issuing corporations and governments. These suppliers are leading international companies that provide quoting and revaluation services to leading financial institutions worldwide.

Pursuant to ASC 820-10 (FAS 157), "Fair Value Measurements," the Bank is required to reflect credit risk and nonperformance risk in assessing the fair value of debt, including derivative instruments, measured at fair value. Nonperformance risk includes the credit risk of the Bank and of the counterparty to the transaction. For further details, see Note 32 to the Financial Statements.

Employee benefit liabilities

Some of the provisions for the Bank's liabilities in connection with employee-employer relationships are based on actuarial calculations, among other factors. These provisions include pension liabilities with respect to payments for employees who retire before legal retirement age, as well as pension liabilities with respect to payments for active employees expected to retire with preferred terms before the legal retirement age, and liabilities for severance pay. Also included are long-term liabilities during the period of employment, such as a 25-year service grant, and retirement and post-retirement employee benefits.

The liabilities, calculated based on actuarial estimates of the Bank as at December 31, 2023, amounted to a total of approximately NIS 4,374 million. The liabilities are discounted at a real factor of 2.06% per annum, based on the yield of CPI-linked government bonds in Israel, plus a margin equal to the difference between rates of yield to maturity, by maturity period, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of US government bonds, at the reporting date, as determined by the Banking Supervision Department.

Actuarial calculations are mainly based on assumptions and estimates, which are based on the evaluations and resolutions of the Board of Management, past experience, and various statistics, such as mortality tables, employee departure rates, the rate of real change in wages over time, etc. These estimates and assumptions are reviewed regularly.

Changes in the various actuarial parameters would lead to different results from those obtained today. For example, a 1% increase in the discount rate would cause a reduction of the liabilities by a total of approximately NIS 324 million, and a 1% decrease in the discount rate would cause these liabilities to grow by a total of approximately NIS 381 million. An increase of 1% in the estimated annual rate of increase in wages would also cause an increase of the aforesaid liabilities by a total of approximately NIS 242 million, and a decrease of 1% in the estimated annual rate of increase in wages would cause the aforesaid liabilities to decrease by a total of approximately NIS 208 million. An increase of 1% in the annual estimate of rates of departure for early retirement would cause an increase of the liabilities by a total of approximately NIS 201 million, and a decrease of 1% in the annual estimated rate of departure for early retirement would cause the liabilities to decrease by a total of approximately NIS 196 million.

The actuary estimate for the period ended December 31, 2023, in respect of employee benefit liabilities is attached to this report.

Contingent liabilities and legal proceedings

The Bank Group is a party to legal proceedings taken against it by customers, by former customers, and by various third parties who believe they have suffered harm or damages resulting from the Bank Group's activity. The Bank's Board of Management has included sufficient provisions in the financial statements to cover the expected damages, based on legal opinions. In most legal proceedings, opinions are obtained from legal advisors external to the Bank Group, and reviewed by legal counsels employed by the Bank.

These evaluations are based on the best judgment of the legal advisors, taking into consideration the stage at which the proceedings are at present and the legal experience accumulated on these matters in Israel and worldwide.

The preparation of estimates regarding provisions for legal proceedings involves judgment, at a very high level in comparison to other types of provisions. When such proceedings are in initial stages, the determination whether the Bank has any liability, the establishment of a range of estimates, and the determination of the probability that the Bank may incur costs as a result of such liability entail significant uncertainty; in the case of matters with respect to which no judicial proceeding is underway at the reporting date (including arguments or threats to file a legal claim), the uncertainty increases further.

As the proceedings progress, the Board of Management of the Bank and its legal advisors evaluate, each quarter, whether it is necessary to include or update provisions in respect of the proceedings, updating the estimate performed in the preceding reporting period. The precision of the estimates increases as the proceedings advance, but the amount of the provision remains sensitive to changes in assumptions. The Bank Group may also have exposure to the threat of legal claims that have not yet been filed. In assessing risk in respect of these exposures, the Bank Group relies on estimates of the Board of Management and of the functions that handle the exposure, taking into account the materiality and tangibility of the threat, the prospects of success of a legal claim (if filed), and the possible outcomes thereof.

In most cases, there is a wide range of possible outcomes for every legal proceeding. In addition, it should be taken into account that in most cases, no "certain" or "near certain" assessments can be made with regard to legal matters, not only in the initial stages of a claim or of other proceedings, but until the verdict is handed down or other proceedings are concluded. Accordingly, the outcome of such proceedings may differ, sometimes to a material extent, from the estimates established.

The Bank and its legal advisors face greater difficulty than usual when estimating the outcome of legal proceedings involving class-action suits, most notably during the stage in which the court has not yet decided whether to accept or deny the petition to recognize the claim as a class action.

Taking the foregoing into consideration, and taking into consideration the material amounts stated in class-action suits and the significant uncertainty involved in the estimates, the progress of the hearings in such proceedings may, from time to time, have a material adverse effect on the results of the Bank Group in the quarterly or annual reporting period in which the proceedings are resolved.

Income in respect of a gain contingency is recognized when the income has been realized or is realizable. To make this determination, the Bank takes the full range of facts and circumstances into consideration, including legal opinions, to the extent relevant.

Impairment of securities

Impairment and allowance for credit losses in respect of bonds available for sale

Each reporting period, the Board of Management of the Bank determines whether impairment or credit loss is required to be recognized in respect of bonds available for sale whose fair value is lower than their amortized cost (in a loss position).

1. Impairment of bonds available for sale is required to be recognized when the Bank intends to sell the bonds, or when it is probable that the Bank will be required to sell the bonds before their value is recovered. In such case, the amortized cost is written down to the fair value.
2. A credit loss is required to be recognized when the fair value of bonds available for sale is lower than the amortized cost, and the impairment is due to a credit loss. To determine whether credit loss exists in respect of the bonds, the Bank performs a qualitative examination of whether there are indications of the existence of credit loss, including the issuer rating, the rate of decline in value below the amortized cost, and worsening of the condition of the issuer's business. If the result of the qualitative examination is that credit loss exists, an allowance for credit losses is calculated by discounting cash flows expected from the bonds. It is emphasized that in any event, the allowance for credit losses recognized shall not be greater than the difference between the amortized cost and the fair value.

Revaluation to fair value and impairment of shares without a readily determinable fair value

Shares without a readily available fair value are measured at cost net of impairment, if any, plus or minus observable price changes in ordinary transactions for identical or similar investments of the same issuer. Unrealized profits or losses from adjustments to such observable price changes are recorded to the statement of profit and loss.

Further to the foregoing, the Bank examines, in each reporting period, whether transactions relevant to shares without a readily determinable fair value were executed regarding which an update of the book value of the shares held by the Bank is required. To the extent relevant, the value of the investment in such shares is updated in accordance with the accounting principles. In addition, each reporting period, the Bank performs a qualitative assessment, taking impairment indicators into consideration, in order to assess whether impairment has occurred in investments in shares without a readily determinable fair value. If impairment of the investment in the shares has occurred according to this assessment, the Bank assesses the fair value of the investment in the shares, in order to determine the amount of loss from the impairment.

4.2. Controls and procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Bank must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Bank's internal control over financial reporting, including an assessment of the effectiveness of these controls, pursuant to the provisions of Sections 302 and 404 of the law known as the "Sarbanes-Oxley Act," enacted in the United States.

The provisions of these two sections of the law were integrated into the Public Reporting Directives.

The directive in Section 302 regarding the existence of controls and procedures concerning disclosure is implemented at the Bank on a quarterly basis. The directive in Section 404 regarding the Bank's internal control over financial reporting is implemented at the end of each year, as required in the directives.
As part of the implementation of the directives of Section 404, the Bank, with the assistance of a consulting firm, mapped and documented all material control processes, based on the directives of the SEC (the Securities and Exchange Commission in the United States), using the prevalent methodologies, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO 2013). In addition, in accordance with the requirements, the Bank carried out a test of the effectiveness of the procedures for internal control over financial reporting, through an examination of the effectiveness of the main controls in practice.
The Bank updated the documentation of the material control processes for 2023, as in every year, according to the prevalent methodologies, with the assistance of a consulting firm, and examined the effectiveness of the procedures for internal control over financial reporting, through a renewed examination of the main controls for the current year.

Evaluation of controls and procedures concerning disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at December 31, 2023. Based on this assessment, they have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial statement, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Changes in internal control

During the quarter ended on December 31, 2023, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting.

Ruben Krupik
Chairman of the Board of Directors

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, March 6, 2024

5. Report of the Board of Directors and the Board of Management on internal control over financial reporting

The Board of Directors and the Board of Management of Bank Hapoalim B.M. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control over 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 assurance to the Board of Directors and the Board of Management of the Bank with regard to the adequate preparation and presentation of financial reports published in accordance with generally accepted 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 these systems are found to be effective, such systems can provide only a reasonable degree of assurance with regard to the preparation and presentation of the financial reports.

The Board of 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 Board of Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Board of 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 Board of Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over 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 2013). Based on this assessment, the Board of Management believes that as at December 31, 2023, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as at December 31, 2023, was audited by the Bank's external auditors, Ziv Haft Certified Public Accountants (Isr.) and Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report on page 164. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control over financial reporting as at December 31, 2023.

Ruben Krupik
Chairman of the
Board of Directors

Dov Kotler
President and
Chief Executive Officer

Guy Kalif
Member of the Board of Management,
Chief Accountant

Tel-Aviv, March 6, 2024

CEO Declaration

I, Dov Kotler, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (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 in the Report fairly reflect the financial position, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented 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 and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); 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 control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and with regard to the preparation of the financial statements for external purposes 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 in the Report, 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 this 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 auditors, 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 over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that could reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees who have a significant role in the internal control over financial reporting at the Bank were involved.

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

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, March 6, 2024

Chief Accountant Declaration

I, Guy Kalif, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (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 in the Report fairly reflect the financial position, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented 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 and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); 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 control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and with regard to the preparation of the financial statements for external purposes 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 in the Report, 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 this 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 auditors, 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 over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that could reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees who have a significant role in the internal control over financial reporting at the Bank were involved.

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

Guy Kalif
Member of the Board of Management,
Chief Accountant

Tel-Aviv, March 6, 2024

Bank Hapoalim

Financial Statements



Financial Statements

as at December 31, 2023

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Auditors' Report to the Shareholders of Bank Hapoalim B.M. According to 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 Bank Hapoalim B.M. and its subsidiaries (hereinafter together – "the Bank") as at December 31, 2023, based on criteria established in the 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 Report of the Board of Directors and the Board of Management 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 USA 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 aspects. 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 the planning and operation of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in 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 transfers of the assets of the bank (including their removal from its possession); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement 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 receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including removal from its possession) 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 misstatement. Also, future conclusions based on any current effectiveness assessment are exposed 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.

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In our opinion, the Bank maintained, in all material aspects, effective internal control over financial reporting as at December 31, 2023, based on criteria established in the Internal Control – Integrated Framework issued by the COSO 2013.

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 consolidated financial statements of the Bank as at December 31, 2023 and 2022, and for each of the three years in the period ended December 31, 2023, and our report dated March 6, 2024, expressed an unqualified opinion on the said financial statements as well as drew attention to the exposure to class actions that were filed against the Bank Group.

Somekh Chaikin
Certified Public Accountants (Isr)

Ziv Haft
Certified Public Accountants (Isr)

Tel Aviv, March 6, 2024

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Auditors' Review Report to the Shareholders of Bank Hapoalim B.M.

We have audited the accompanying consolidated balance sheets of Bank Hapoalim B.M. (hereinafter: "the Bank") as at December 31, 2023 and 2022, and the consolidated statements of profit and loss, statements of comprehensive income, statements of changes in equity, and statements of cash flows 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 of its 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 Auditors Regulations (Auditor's Mode of Performance), 1973, and certain auditing standards whose application in the audit of banking corporations was prescribed in directives and guidelines of the Supervisor of Banks. According to these standards, we are required to 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 Board of Directors and Management of the Bank, 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 aspects, the financial position of the Bank and its consolidated subsidiaries as at December 31, 2022 and 2023, and the results of operations, changes in equity, and cash flows of the Bank and its consolidated subsidiaries 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, these financial statements are prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our opinion above, we draw attention to the statements in Note 25D(b) regarding exposures to class actions filed against the Bank Group.

We have also audited, 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, the Bank's internal control over financial reporting as at December 31, 2023, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013), and our report, dated March 6, 2024, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

Key audit matters

The key audit matters detailed below are those matters communicated, or which were required to be communicated, to the Board of Directors of the Bank, and which, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters include, among others, any matter: (1) that concerns or may concern material items or disclosures in the financial statements, and (2) regarding which our judgment was challenging, subjective, or particularly complex. These matters were addressed within our audit and the formulation of our opinion on the consolidated financial statements as a whole. The communication of these matters below does not alter our opinion of the consolidated financial statements as a whole and we do not thereby provide a separate opinion regarding these matters, or regarding the items or disclosures to which they refer.

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Allowance for credit losses

Why was the matter determined as a key audit matter

As described in Notes 1, 13, and 29 to the Consolidated Financial Statements, the allowance for credit losses of the Bank in respect of balance sheet and off-balance sheet credit to the public in the consolidated statements of the Bank amounts to a total of NIS 8.0 billion as at December 31, 2023, and includes an allowance on an individual basis and an allowance on a collective basis in respect of the risk of credit to the public.

In the process of estimating the allowance for credit losses, the Bank assesses the expected loss in the credit portfolio. The loss assessment process is based on significant estimates that involve uncertainty, and on subjective evaluations, both at the stage of determining the required classification of the debts and at the stage of measuring the allowance for credit losses.

The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) (ASC 326) as of January 1, 2022. In the calculation of the allowance on a collective basis, the expected losses over the lifetime of the credit are estimated according to methodology and models based on risk rating (such as the probability of default and the loss given default), in which the amount of the expected loss in the event of occurrence of default is estimated. The models are based, among other matters, on historical data and additional adjustments used to predict the expected credit losses.

The classification of customers' debt as nonproblematic or problematic debt also influences the level of the allowance for credit losses. In addition, the Bank includes an allowance for credit losses calculated on an individual basis in respect of certain debts, in accordance with its policy, based on assessments of the expected recovery from the borrower.

Principal estimates used as the basis for calculation of the allowance for credit losses:

- Establishing estimates in the models, including the methodology, assumptions, and data, and the establishment of additional adjustments involves significant judgment in the choice and design thereof.
- When identifying and classifying debts, judgment is exercised to find problematic debts according to specified criteria that may indicate that a debt has become problematic, an estimate of the potential or existing damage to the primary repayment source of the borrower (i.e. a current cash-flow based, stable source under the borrower's control), the existence of expected cash flow of the borrower for full and timely repayment of the debt, and an assessment of other financial data of the borrower that may indicate existing or potential weaknesses of the borrower. As noted, the classification of a debt as problematic also affects the level of the allowance in respect of that debt.
- In the calculation of the allowance on an individual basis, judgment is exercised in determining the recoverable amount, i.e. in determining the expected future cash flows to service the debt from the business activity of the borrower and/or the value of realization of collateral and guarantees.

We identified the aforesaid estimates used as the basis for calculation of the allowance for credit losses as a key audit matter. Any change in these estimates or evaluations may have a significant effect on the allowance for credit losses stated in the financial statements of the Bank.

Auditing the allowance for credit losses requires the judgment of the auditor, as well as the knowledge and experience to examine the reasonableness of the use of the models, calculations, and adjustments used by management to determine the appropriateness of debt classifications and the estimated allowance for credit losses.

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How the key audit matter was addressed

The following are the principal procedures we performed in connection with this key matter within our audit:

We examined the work processes for the calculation of the allowance for credit losses and the effectiveness of the planning and operation of controls over financial reporting related to the determination of the estimated allowance, including controls on the following subjects:

- Examination of the adequacy of the methodology used to determine the allowance for credit losses;
- Examination of the adequacy of the underlying data used to calculate the allowance for credit losses;
- Identification of debts with potential characteristics of problematic debts, according to criteria established by the Bank;
- Classification of the debts according to the procedures of the Bank;
- Analysis of the reasonableness of the allowance for credit losses measured on a collective basis.

We carried out substantive procedures to examine the allowance for credit losses, based on representations we received. These procedures included, among other matters:

- Examination of the methodology for determining the allowance and an examination of whether it is consistent with the accounting principles applicable to the Bank;
- Sample testing of calculations performed by the Bank to determine the appropriateness of the use of the various models;
- Examination of the appropriateness of classifications and allowances for a sample of debts;
- Examination of the reasonableness of appropriateness of the allowance for credit losses.

Somekh Chaikin
Certified Public Accountants (Isr)
We have served as the auditors
of the Bank since 1998

Ziv Haft
Certified Public Accountants (Isr)
The firm Haft & Haft, which merged into Ziv Haft in 2000,
began serving as the external auditor of the Bank in 1921

Tel Aviv, March 6, 2024

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Consolidated Statement of Profit and Loss
for the year ended December 31, 2023

NIS millions

	Note	2023	2022	2021
Interest income	2	**32,971**	19,220	11,684
Interest expenses	2	**(16,886)**	(5,753)	(1,917)
Net interest income		**16,085**	13,467	9,767
Provision (income) for credit losses	13	**1,879**	(34)	(1,220)
Net interest income after provision for credit losses		**14,206**	13,501	10,987
Non-interest income				
Non-interest financing income (expenses)	3	**1,267**	581	1,081
Fees	4	**3,892**	3,705	3,355
Other income	5	**138**	167	189
Total non-interest income		**5,297**	4,453	4,625
Operating and other expenses				
Salaries and related expenses	6	**4,492**	4,387	4,333
Maintenance and depreciation of buildings and equipment		**1,529**	1,441	1,333
Other expenses	7	**2,210**	2,144	2,137
Total operating and other expenses		**8,231**	7,972	7,803
Profit before taxes		**11,272**	9,982	7,809
Provision for taxes on profit	8	**3,930**	3,548	2,958
Profit after taxes		**7,342**	6,434	4,851
The Bank's share in profits of equity-basis investees, after taxes	15(B)	**18**	99	49
Net profit (loss)				
Before attribution to non-controlling interests		**7,360**	6,533	4,900
Loss (profit) attributed to non-controlling interests		**-**	(1)	14
Attributed to shareholders of the Bank		**7,360**	6,532	4,914
Earnings per ordinary share in NIS	9			
Basic earnings				
Net profit attributed to shareholders of the Bank		**5.50**	4.89	3.68
Diluted earnings				
Net profit attributed to shareholders of the Bank		**5.50**	4.89	3.68

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

Ruben Krupik
Chairman of the
Board of Directors

Dov Kotler
President and
Chief Executive Officer

Guy Kalif
Member of the Board of Management,
Chief Accountant

Tel Aviv, March 6, 2024

Consolidated Statement of Comprehensive Income
for the year ended December 31, 2023

NIS millions

	Note	2023	2022	2021
Net profit before attribution to non-controlling interests		**7,360**	6,533	4,900
Net loss (profit) attributed to non-controlling interests		**-**	(1)	14
Net profit attributed to shareholders of the Bank		**7,360**	6,532	4,914
Other comprehensive income (loss) before taxes:	10			
Net adjustments in respect of bonds available for sale at fair value		**1,291**	(2,947)	(575)
Adjustments of employee benefit liabilities*		**194**	738	(314)
Other comprehensive income (loss) before taxes		**1,485**	(2,209)	(889)
Effect of related tax		**(499)**	733	300
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes		**986**	(1,476)	(589)
Net of other comprehensive loss (income) attributed to non-controlling interests		**-**	2	-
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**986**	(1,474)	(589)
Comprehensive income (loss) before attribution to non-controlling interests		**8,346**	5,057	4,311
Comprehensive loss (income) attributed to non-controlling interests		**-**	1	14
Comprehensive income attributed to shareholders of the Bank		**8,346**	5,058	4,325

* Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

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

Consolidated Balance Sheet
as at December 31, 2023

NIS millions

	Note	December 31 2023	2022
Assets			
Cash and deposits with banks	11	**107,730**	133,424
Securities[1][2]	12	**127,122**	107,400
Securities borrowed or purchased under agreements to resell		**4,723**	898
Credit to the public		**414,375**	394,262
Allowance for credit losses		**(6,994)**	(5,535)
Net credit to the public	13, 29	**407,381**	388,727
Credit to governments	14	**3,175**	2,157
Investments in equity-basis investees	15	**1,527**	1,198
Buildings and equipment	16	**3,672**	3,522
Assets in respect of derivative instruments	27	**25,229**	21,832
Other assets[1]	17	**5,971**	6,195
Total assets		**686,530**	665,353
Liabilities and capital			
Deposits from the public	18	**554,595**	532,588
Deposits from banks	19	**9,085**	8,696
Deposits from the government		**2,436**	3,262
Securities lent or sold under agreements to repurchase		**6,279**	13,877
Bonds and subordinated notes	20	**21,800**	26,866
Liabilities in respect of derivative instruments	27	**24,240**	19,043
Other liabilities (of which: 956; 935, respectively, allowance for credit losses in respect of off-balance sheet credit instruments)[1]	21	**15,665**	14,518
Total liabilities		**634,100**	618,850
Shareholders' equity	24	**52,430**	46,502
Non-controlling interests		**-**	1
Total capital		**52,430**	46,503
Total liabilities and capital		**686,530**	665,353

(1) With regard to amounts measured at fair value, see Note 32.B.
(2) For details regarding securities pledged to lenders, see Note 26.

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

Statement of Changes in Equity
for the year ended December 31, 2023

NIS millions

	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2021	8,183	17	8,200	(1,009)	32,682	39,873	26	39,899
Net profit (loss) for the year	-	-	-	-	4,914	4,914	(14)	4,900
Dividends	-	-	-	-	(1,479)	(1,479)	-	(1,479)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	16	16	-	-	16	-	16
Exercise of equity compensation into shares	17	(17)	-	-	-	-	-	-
Net other comprehensive income (loss) after tax effect	-	-	-	(589)	-	(589)	-	(589)
Balance as at December 31, 2021	8,200	16	8,216	(1,598)	36,117	42,735	12	42,747
Adjustment to opening balance net of tax for effect of initial implementation of CECL[(1)]	-	-	-	-	(364)	(364)	-	(364)
Adjusted opening balance as at January 1, 2022	8,200	16	8,216	(1,598)	35,753	42,371	12	42,383
Net profit for the year	-	-	-	-	6,532	6,532	1	6,533
Dividends	-	-	-	-	(939)	(939)	-	(939)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	12	12	-	-	12	-	12
Exercise of equity compensation into shares	12	(12)	-	-	-	-	-	-
Net other comprehensive income (loss) after tax effect	-	-	-	(1,474)	-	(1,474)	(2)	(1,476)
Decrease in non-controlling interests due to increase in rate of holding in subsidiary	-	-	-	-	-	-	(10)	(10)
Balance as at December 31, 2022	8,212	16	8,228	(3,072)	41,346	46,502	1	46,503

* Excluding a balance of 109,893 treasury shares (December 31, 2022: excluding a balance of 540,105 treasury shares; December 31, 2021: excluding a balance of 924,138 treasury shares).

(1) Cumulative effect in respect of the initial implementation of United States accounting principles on the topic "Financial Instruments – Credit Losses" (ASU 2016-13).

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

Statement of Changes in Equity
for the year ended December 31, 2023 (continued)

NIS millions

	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Net profit (loss) in the period	-	-	-	-	**7,360**	**7,360**	-	**7,360**
Dividends	-	-	-	-	**(2,431)**	**(2,431)**	**(1)**	**(2,432)**
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	**13**	**13**	-	-	**13**	-	**13**
Exercise of equity compensation into shares	**13**	**(13)**	-	-	-	-	-	-
Net change	-	-	-	-	-	-	**(1)**	**(1)**
Net other comprehensive income (loss) after tax effect	-	-	-	**986**	-	**986**	-	**986**
Balance as at December 31, 2023	**8,225**	**16**	**8,241**	**(2,086)**	**46,275**	**52,430**	-	**52,430**

* Excluding a balance of 109,893 treasury shares (December 31, 2022: excluding a balance of 540,105 treasury shares; December 31, 2021: excluding a balance of 924,138 treasury shares).

(1) For details, see Note 24.J below.

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

Consolidated Statement of Cash Flows
for the year ended December 31, 2023

NIS millions

	2023	2022	2021
Cash flows from (for) operating activity			
Net profit for the year	**7,360**	6,533	4,900
Adjustments necessary to present cash flows from operating activity			
The Bank's share in losses (profits) of equity-basis investees	**(18)**	(99)	(49)
Depreciation of buildings and equipment (including impairment)	**802**	716	602
Provision (income) for credit losses	**1,879**	(34)	(1,220)
Loss (gain) from sale and impairment of bonds available for sale	**594**	128	(256)
Realized and unrealized loss (gain) from adjustments to fair value of bonds held for trading	**(25)**	9	54
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	**(313)**	166	(566)
Adjustment to fair value of investment in affiliate	**-**	(17)	(13)
Gain from realization of buildings and equipment	**(71)**	(46)	(92)
Change in benefit due to share-based payment transactions*	**13**	12	16
Net change in liabilities in respect of employee benefits	**70**	(26)	(11)
Deferred taxes, net	**(511)**	(71)	684
Loss (gain) from sale of credit portfolios	**-**	6	-
Dividends received from equity-basis investees	**30**	67	34
Adjustments in respect of exchange-rate differences	**-**	(1,429)	588
Accumulation differentials included in investing and financing activities	**(4,414)**	(5,133)	732
Net change in current assets			
Assets in respect of derivative instruments	**(3,397)**	(8,848)	1,906
Securities held for trading	**(9,058)**	3,726	1,854
Other assets	**472**	(1,047)	214
Net change in current liabilities			
Liabilities in respect of derivative instruments	**5,197**	4,693	(2,454)
Other liabilities*	**953**	826	(1,745)
Net cash from (for) operating activity	**(437)**	132	5,178

* Reclassified.

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

Consolidated Statement of Cash Flows
for the year ended December 31, 2023 (continued)

NIS millions

	2023	2022	2021
Cash flows from (for) investing activity			
Deposits with banks	**90**	(5)	122
Credit to the public[1]	**(17,835)**	(32,424)	(46,428)
Credit to governments	**(1,024)**	(172)	225
Securities borrowed or purchased under agreements to resell	**(3,825)**	355	(885)
Acquisition of bonds held to maturity	**(5,314)**	(5,863)	(190)
Proceeds from redemption of bonds held to maturity	**183**	-	115
Acquisition of bonds available for sale and shares not held for trading	**(66,959)**	(65,350)	(33,226)
Proceeds from sale of bonds available for sale and shares not held for trading	**44,362**	25,550	29,859
Proceeds from redemption of bonds available for sale	**23,773**	10,417	6,039
Acquisition of credit portfolios	**(315)**	(1,132)	(472)
Proceeds from sale of credit portfolios	**942**	1,606	-
Investment in equity-basis investees	**(341)**	(327)	(282)
Proceeds from realization of investment in equity-basis investees	**-**	16	-
Acquisition of buildings and equipment	**(970)**	(700)	(886)
Proceeds from realization of buildings and equipment	**86**	63	140
Net cash from (for) investing activity	**(27,147)**	(67,966)	(45,869)
Cash flows from (for) financing activity			
Deposits from banks	**390**	(2,905)	5,010
Deposits from the public	**17,918**	690	83,084
Deposits from the government	**(826)**	2,510	(9)
Securities lent or sold under agreements to repurchase	**(7,598)**	10,451	3,420
Issuance of bonds and subordinated notes	**384**	6,568	8,123
Redemption of bonds and subordinated notes	**(5,873)**	(5,813)	(6,174)
Dividend paid to shareholders of the Bank	**(2,431)**	(939)	(1,479)
Dividend to holders of minority interests	**(1)**	-	-
Acquisition of minority interests in a subsidiary	**-**	(16)	-
Net cash from (for) financing activity	**1,963**	10,546	91,975
Increase (decrease) in cash	**(25,621)**	(57,288)	51,284
Balance of cash at beginning of year	**132,735**	188,594	137,898
Effect of changes in exchange rates on cash balances	**-**	1,429	(588)
Balance of cash at end of year	**107,114**	132,735	188,594

(1) Includes regular activity of receivables discounting acquisition.

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

Consolidated Statement of Cash Flows
for the year ended December 31, 2023 (continued)

NIS millions

	2023	2022	2021
Interest and taxes paid and/or received and dividends received			
Interest received	**26,253**	15,190	10,108
Interest paid	**(14,483)**	(4,001)	(1,708)
Dividends received	**56**	43	33
Income tax paid	**(3,814)**	(2,293)	(1,608)
Income tax received	**291**	261	4

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

Note 1 Significant Accounting Policies

A. General information

Bank Hapoalim B.M. (hereinafter: the "Bank") is a corporation incorporated in Israel.

The Bank publishes its annual financial statements on a consolidated basis only, with the approval of the Banking Supervision Department. Note 34 presents the condensed stand-alone financial statements of the Bank, including the balance sheet, statement of profit and loss, and statement of cash flows.

The financial statements were approved for publication by the Board of Directors of the Bank on March 6, 2024.

B. Definitions

In these financial statements:

- GAAP for US banks – Accounting principles that American banks traded in the United States are required to implement, in accordance with the hierarchy established in Accounting Standards Codification (ASC) Topic 105-10 (FAS 168) of the Financial Accounting Standards Board and in accordance with the guidelines and position statements of the Securities and Exchange Commission and of the banking supervision agencies in the United States.
- The Group – The Bank and its consolidated companies.
- Consolidated companies/subsidiaries – Companies whose financial statements are consolidated in full, directly or indirectly, with the financial statements of the Bank.
- Equity-basis investees – Companies measured using the equity method.
- Affiliates – Consolidated companies and equity-basis investees of the Group.
- Overseas offices – Representative offices, branches, or subsidiaries of the Bank outside Israel.
- CPI – The consumer price index as published by the Central Bureau of Statistics in Israel.
- Recorded debt balance – The balance of a debt, after deducting charge-offs, but before deducting the allowance for credit losses in respect of the debt.
- Fair value – The price that would be obtained from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

C. Basis for preparation of the financial statements

1. Reporting principles

The consolidated financial statements of the Bank are prepared in accordance with the Public Reporting Directives and guidelines of the Banking Supervision Department. These directives are primarily based on generally accepted accounting principles for banks in the United States.

2. Functional currency and presentation currency

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates, and therefore constitutes the functional currency of the Bank. The financial statements are presented in NIS and rounded to the nearest million, unless otherwise noted.

Note 1 Significant Accounting Policies (continued)

3. Use of estimates

The preparation of the financial statements in conformity with the directives and guidelines of the Banking Supervision Department requires the Board of Management of the Bank to exercise judgment and to use estimates, evaluations, and assumptions that affect the application of policies and the amounts of assets, liabilities, income, and expenses. It is hereby clarified that actual results may differ from such estimates.

In formulating the accounting estimates used in the preparation of the financial statements of the Bank, the Board of Management of the Bank is required to make assumptions with regard to circumstances and events that involve significant uncertainty. The Board of Management of the Bank bases its judgment in establishing these estimates on past experience, various facts, external factors, and reasonable assumptions, according to the circumstances, as appropriate for each estimate. The estimates and the underlying assumptions are reviewed routinely. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

D. First-time implementation of accounting standards, updates of accounting standards, and directives of the Banking Supervision Department

1. Supervisory emphases in connection with the Public Reporting Directives in view of the Swords of Iron War

On October 18, 2023, the Supervisor of Banks issued a circular on the subject, "Swords of Iron War – supervisory emphases for the treatment of debts and reporting to the public." The circular addresses debt modifications performed as part of new repayment arrangements provided to customers due to the war. According to the circular, the past-due status of debts should be determined based on the contractual terms of the debt as updated according to the new repayment arrangement, whether agreed specifically with the borrower or established in a sweeping determination with regard to all borrowers in the affected area. In addition, discretion is to be exercised to determine whether debts that have undergone such repayment arrangements should be classified as problematic debts. In general, there is no requirement to classify the debts as troubled debt restructuring due to such repayment arrangements.

In the context of the foregoing, the Bank is operating a program for its customers that includes, among other matters, the option to defer payments on loans taken by customers who meet the criteria established by the Banking Supervision Department, which have been expanded at the initiative of the Bank; a waiver of current-account fees; and a waiver of three principal and interest payments on housing loans for customers whose properties are located in the Otef Aza (Gaza Envelope) region (in the range of up to 7 km from the border). The benefits granted to customers were recorded to profit and loss when exercised by the customers. The effect of the benefits was calculated as follows:

- Waiver of principal and interest payments – The amounts waived, at the level of the amounts that were to have been paid, were recognized within non-interest financing expenses.
- Loan payment deferral without interest, and interest-free or reduced-interest loans – The benefit was calculated based on discounted cash flows and deducted from interest income.
- Waiver of fees – The amount waived was deducted from fee income.

Note 1 Significant Accounting Policies (continued)

2. Discontinuation of publication of the LIBOR interest rate

As of the end of 2021, the publication of the LIBOR interest rates in four currencies (euro, British pound, yen, and Swiss franc) has been discontinued. The LIBOR rates for the US dollar were published until June 2023. The LIBOR rates served as the basis for calculation of interest rates applicable to financial products in principal foreign currencies, or linked to these currencies, with floating rates. As part of the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as ISDA (International Swaps and Derivatives Association) and ARRC (Alternative Reference Rate Committee) have formulated alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change affects the entire banking industry, globally and in Israel.

In accordance with the recommendation of the international committees, the rates of addition to interest rates for the conversion of financial instruments based on these rates were determined in March 2021, according to the ISDA resolutions.

The Bank has prepared for the substitution of the reference rate for the financial products it offers to customers, and has adapted its technological systems to the new interest rates and mechanisms. As of January 1, 2022, the reference rates for current-account products and revolving overdrafts have been replaced with the new reference rates, and the Bank has acted to replace the legal agreements with the customers. The Bank also worked to convert all of the products (balance sheet and off-balance sheet), as part of the change in reference rates.

By June 30, 2023, the reference rates for most of the products had been substituted. In a small number of products, the change was applied at the first interest-rate update after June 30, 2023.

The foregoing had no material effect on the financial statements of the Bank.

E. Accounting policies implemented in the preparation of the financial statements

1. Foreign currency and linkage

Transactions in foreign currency

Transactions in foreign currency are translated according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated according to the exchange rate in effect at that date.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency according to the exchange rate in effect on the date on which the fair value is determined. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate in effect on the date of the transaction. Exchange-rate differences arising from translation of transactions in foreign currency are recognized in profit and loss.

In this context, note that according to the US standard applied at the Bank, exchange-rate differences in respect of bonds available for sale are classified into the capital reserve. However, the Banking Supervision Department has instructed banks in Israel to continue, until January 1, 2025, to treat exchange-rate differences in respect of bonds available for sale according to international standards, where these exchange-rate differences are classified into the statement of profit and loss.

Note 1 Significant Accounting Policies (continued)

CPI and exchange rates

Set out below are details regarding the CPI and representative exchange rates of the major currencies, and rates of change thereof.

	2023	2022	2021	**2023**	2022
	Points			Change in % for the year	
CPI					
November CPI ("known")	**113.7**	110.1	104.5	**3.3%**	5.3%
	NIS				
Exchange rate as at December 31					
USD exchange rate (in NIS per 1 USD)	**3.630**	3.519	3.110	**3.1%**	13.2%
EUR exchange rate (in NIS per 1 EUR)	**4.010**	3.753	3.520	**6.9%**	6.6%
As at December 31					
Bank of Israel interest rate	**4.75%**	3.25%	0.10%		

2. Investments in affiliates

a. Consolidated financial statements and non-controlling interests

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date of attainment of control to the date of cessation of control. Accordingly, mutual balances and transactions between these entities and unrealized profits or losses between the entities are eliminated in full.

b. Loss of control of a subsidiary

When control is lost, the Bank derecognizes the assets and liabilities of the subsidiary, any non-controlling interests, and other components of capital attributed to the subsidiary, including amounts previously recognized in accumulated other comprehensive income.

The difference between the consideration received and the fair value of the remaining investment in the former subsidiary, and the balances derecognized, is recognized in profit and loss.

c. Investment in equity-basis investees

Equity-basis investees are entities in which the Bank has material influence over financial and operational policy, but has not attained control. The assumption is that a stake of 20% to 50% in an affiliate grants material influence.

Investments in equity-basis investees are accounted for using the equity method, and are recognized for the first time according to the cost of the investment, including transaction costs. The financial statements include the Bank's share of income and expenses, profit or loss, and other comprehensive income of affiliated entities accounted for using the equity method.

Note 1 Significant Accounting Policies (continued)

An investment in an equity-basis investee is examined 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 the impairment is other than temporary.

3. Basis for recognition of income and expenses

As a rule, income and expenses are included in the statement of profit and loss on an accrual basis.

The Bank accounts for the income and expense items noted below as established in the directives and guidelines of the Banking Supervision Department:

a. Beginning on the date of classification of a debt as non-accruing, the Bank stops accruing interest income in respect of the debt (including CPI linkage differentials). In addition, upon classification of the debt as non-accruing, the Bank cancels all uncollected accrued interest income that has been recognized as income in the statement of profit and loss. The debt continues to be classified as debt not accruing interest income, as long as its classification as such is not rescinded. With regard to the restoration of non-accruing debt to accruing debt status, see Section E(4) below.

   Interest accrued on problematic debts classified as non-accruing debts is recognized as income on a cash basis, when there is no doubt regarding the collection of the remaining recorded balance of non-accruing debt. In such situations, the amount collected at the expense of the interest to be recognized as interest income is limited to the amount that would have accrued during the reporting period on the remaining recorded balance of the debt, at the contractual interest rate. Interest income on a cash basis is classified in the statement of profit and loss as interest income under the relevant item. When the collection of the remaining recorded balance is in doubt, all payments collected are used to reduce the principal of the loan, until the doubt is eliminated.

b. Fees charged for credit origination, with the exception of fees in respect of loans for a period of up to three months, are not recognized immediately as income in the statement of profit and loss; instead, they are deferred and recognized over the life of the loan as an adjustment of the return. Income from such fees is recorded according to the effective interest rate method, and reported as part of interest income.

c. Credit allocation fees are treated according to the probability of realization of the commitment to grant the credit. If the probability is remote, the fee is recognized on a straight-line basis over the period of the commitment. Otherwise, the recognition of income from such fees is deferred until the realization of the commitment or until it expires, whichever is earlier. If the commitment is realized, the fees are recognized by adjustment of the return over the life of the loan, as noted above. If the commitment expires without being realized, the fees are recognized at the date of expiration and reported within income from fees. For this purpose, the Bank assumes that the probability of realization of the commitment is not remote.

Note 1 Significant Accounting Policies (continued)

d. In the case of refinancing or restructuring of non-problematic debts, it is necessary to determine whether the change in the terms of the loan is material or otherwise. In cases where the change is material (not minor), all unamortized fees as well as prepayment fees collected from the customer in respect of changes in the terms of the credit are recognized in profit and loss. Otherwise, the aforesaid fees are included as part of the net investment in the new loan, and recognized as an adjustment of return, as noted above. For this purpose, the Bank assumes that the changes in the terms of the debt are not material (are minor).
e. Prepayment fees are recognized immediately within interest income.
f. Income from fees in respect of the delivery of services (e.g. from activity in securities and derivative instruments, credit cards, account management, conversion differences, and foreign trade) is recognized in profit and loss when the Bank gains the entitlement to receive it. Certain fees, such as fees in respect of guarantees and certain fees in respect of project financing, are recognized proportionally over the period of the transaction.
g. Securities – see Section E(5) below.
h. Derivative financial instruments – see Section E(6) below.

4. Non-accruing debts, credit risk, and allowance for credit losses

Identification and classification of non-accruing debts

The Bank has established procedures for the identification of problematic credit and for the classification of debts, to differentiate debts classified as problematic, including non-accruing debts, from nonproblematic debts. In accordance with these procedures, the Bank classifies all of its problematic debts and off-balance sheet credit items into the categories special mention, substandard, or non-accruing. Debt is classified as non-accruing when, based on current information and events, it is expected that the Bank will be unable to collect the full amounts owed to it according to the original contractual terms of the debt.

Debts (including bonds) are past due when the principal or interest in respect thereof has not been paid after the scheduled repayment date. In addition, current drawing accounts and current accounts are reported as debts past due by 30 days or more when the account remains continuously in deviation from the approved credit facility for 30 days or more, or if, within the credit facility, amounts credited to the account are not sufficient to cover the debt within a period of 180 days.

For the purpose of classification and treatment of problematic credit, the Bank differentiates:

Commercial credit in respect of debt with a contractual balance greater than NIS 1 million

Decisions regarding debt classification and the required allowance are based, among other factors, on the past-due status of the debt; an assessment of the financial condition and repayment capability of the borrower; assessment of the primary repayment source of the debt; the existence and condition of collateral; the financial condition of guarantors, if any, and their commitment to support the debt; and the borrower's ability to obtain third-party financing.

Note 1 Significant Accounting Policies (continued)

In any event, such commercial debt is classified as non-accruing debt when the principal or interest in respect thereof is 90 days or more past due, except if the debt is both well-secured and in collection proceedings, or if the debt has undergone troubled debt restructuring.
As of the date of classification as a non-accruing debt, the debt is treated as a debt not accruing interest income (such debt is referred to as "non-accruing debt").
For information regarding rules for charge-offs in respect of these debts, see the section "Charge-offs," below.

Credit to private individuals, housing credit, and commercial credit in respect of debt with a contractual balance of less than NIS 1 million

Decisions regarding classification of the debt are based on the past-due status of the debt. For that purpose, the Bank monitors the days past due, determined in reference to the contractual repayment terms. Commercial credit in respect of debt with a contractual balance of less than NIS 1 million and credit to private individuals are classified as special mention when the debt is past due by more than 60 days, up to 89 days, and classified as substandard when the debt is past due by 90 days or more, without cessation of the accrual of interest income. Housing loans are classified as debts not accruing interest income when the principal or interest in respect of the loan is past due by 90 days or more.
For information regarding rules for charge-offs in respect of these debts, see the section "Charge-offs," below.

Troubled debt restructuring

To improve credit management and collection, and to prevent situations of default or seizure of pledged assets, the Bank has established and implements a policy for problematic debt modifications and changes in terms of debts not identified as problematic. Methods for changes in terms of debts may include, among other matters, deferral of payment dates, reduction of interest rates or amounts of periodic payments, changes in terms of the debt aimed at adaptation to the borrower's financing structure, reexamination of the financial covenants imposed on the borrower, and more.
In order to determine whether a debt modification executed by the Bank constitutes troubled debt restructuring, the Bank performs a qualitative examination of all of the terms of the modification and the circumstances under which it was executed, with the aim of determining whether the debtor is experiencing financial difficulties and whether the Bank granted the debtor a concession within the modification. In order to make this determination, the Bank examines the ability to collect from the customer and considers whether there are signs indicating that the borrower is experiencing difficulties at the time of the modification, or that there is a reasonable probability that the borrower would fall into financial difficulties without the modification.

Note 1 Significant Accounting Policies (continued)

The Bank does not classify debt as having undergone troubled debt restructuring if the debtor is granted a deferral of payments within the modification that is not material considering the frequency of payments, the contractual term to maturity, and the expected average duration of the original debt. In this context, if several modifications involving changes in the terms of the debt have been executed, the Bank takes the cumulative effect of the previous restructurings into consideration in order to determine whether the deferral of payments is immaterial.

In general, debts the terms of which have been changed in troubled debt restructuring are classified as non-accruing debt at the date of the change. With regard to the restoration of non-accruing debt to accruing debt status, see below.

Subsequent debt restructuring

Under certain circumstances, when troubled debt restructuring has been performed, and the banking corporation and the debtor subsequently enter into an additional restructuring agreement, the banking corporation is no longer required to treat the debt as a debt that has undergone troubled debt restructuring, if the following two conditions are fulfilled:

1. The debtor is no longer experiencing financial difficulties at the date of the subsequent restructuring;
2. According to the terms of the subsequent restructuring, the banking corporation has not granted a concession to the debtor (including a concession on the principal, on a cumulative basis, from the date of the original loan).

If such debt is examined individually in subsequent periods, and it is found that impairment should be recognized in respect of the debt, or that the debt has undergone troubled debt restructuring, the Bank returns the debt to non-accruing classification and treats it as a troubled debt restructuring.

Foreclosed assets

In cases of troubled debt restructuring in which the Bank receives assets as full or partial settlement of the debt, such as equity interests, third-party receivables, or other assets to be sold at a later date, these assets shall be recognized, at the fair value of the assets, at the date of the foreclosure. If the assets received constitute full settlement of the debt, and at the foreclosure date the recorded debt balance exceeds the fair value of the assets, the Bank recognizes an allowance for credit losses.

Restoring non-accruing debt to accruing debt status

In general, non-accruing debt is restored to accruing debt classification under one of the following two circumstances:

- There are no principal or interest components in respect of the debt that are due but have not been paid, and the Bank expects the remaining principal and interest to be repaid in full, in accordance with the terms of the contract (including amounts charged off or recorded as allowances).
- The debt is well-secured and in collection proceedings.

Note 1 Significant Accounting Policies (continued)

In addition, with regard to debt that has undergone formal troubled debt restructuring and was classified as non-accruing debt at the date of modification of the terms, the Bank is permitted to restore the debt to accruing status provided that a current and well-documented credit analysis has been performed that supports the return to accruing status, based on the financial condition of the debtor and the probability of repayment according to the updated terms. The evaluation must be based on the historical continuous repayment performance of the debt in cash and cash-equivalent payments over a reasonable period of at least six months; the Bank is permitted to consider payments performed within a reasonable period prior to the restructuring, if the payments are consistent with the updated terms. Otherwise, debt that has undergone troubled debt restructuring must continue to be classified as non-accruing debt.

As of January 1, 2022, these directives regarding the treatment of troubled debt restructuring apply to housing loans.

In accordance with the instructions established in the questions and answers on the implementation of the new rules concerning current expected credit losses, the Bank chose not to implement the new rules regarding the identification of troubled debt restructuring and not to measure the allowance for credit losses using the method required according to these rules for debts in troubled debt restructuring, with respect to modifications in terms executed in housing loans prior to January 1, 2022.

Allowance for credit losses – measurement

Within the implementation of the standard, the Bank has established procedures for the classification of credit and measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover current expected credit losses with respect to its credit portfolio. The Bank has also established the procedures required to maintain an allowance at an appropriate level to cover current expected credit losses related to bonds held to maturity and the portfolio of bonds available for sale, as well as certain off-balance sheet credit exposures.

The estimated allowance for expected credit losses is calculated over the contractual term of the financial asset, taking into account estimated prepayments. The contractual term in respect of extensions, renewals, and expected changes is not taken into account unless one or more of the following applies: (a) at the report date, the Bank has a reasonable expectation that troubled debt restructuring will be carried out with the borrower; or (b) the extension or renewal options are included in the original contract, or in an updated contract at the report date, and cannot be unconditionally revoked by the Bank.

When calculating estimated expected credit losses, the Bank takes into account the effects of past events, current conditions, and reasonable and supportable forecasts of the ability to collect the financial assets.

In general, the calculation of the allowance for expected credit losses is assessed on a collective basis when the assets have similar risk characteristics. These characteristics include, at the level of the customer and the transaction, among others: (1) internal or external credit ratings; (2) the extent and types of collateral allocated to the transaction; (3) the lifetime of the credit; (4) the type of financial asset. For housing credit, the time since the date of origination of the transaction is also taken into account.

Note 1 Significant Accounting Policies (continued)

For each group of financial assets with similar risk characteristics, the Bank calculates the allowance for expected credit losses according to an advanced method based on an economic estimate of the lifetime expected loss. The projected loss at each future point in time until the contractual repayment date of the loan is obtained by multiplying the risk components in reference to that future point in time: the probability of default (PD), the loss given default (LGD), and the balance of credit, taking into account future repayments and utilization of off-balance sheet credit facilities (the exposure at default, EAD). The expected loss is calculated at the level of the debt, for each month from the cutoff date to the contractual repayment date of the debt. The cumulative loss over the lifetime of the debt is the allowance in respect thereof. The Bank believes that this approach is expected to result in the best estimate of the allowance for credit losses.

To evaluate the estimate of expected credit losses over the contractual term of assets, the Bank relies on historical information, with examination of the need to adjust the historical information to reflect the extent to which the existing conditions and the reasonable and supportable forecasts differ from the conditions that prevailed when the historical information was assessed.

To make this determination, the Bank takes into account macroeconomic variables based on forecasts for the lifetime of the financial asset in three scenarios: baseline, optimistic, and pessimistic, which are translated into adjustments of the forecast PD values for each future period until the end of the lifetime of the credit. Updates of the value of collateral, which is a key component of the LGD estimate, are performed through linkage of principal collateral asset types to a representative index or natural impairment over the lifetime of the credit.

In addition, within the qualitative adjustment component, additional characteristics of the financial assets are taken into account that were not considered in the calculation of the projected loss, including qualitative factors relevant to determining expected collection ability, such as political and environmental factors; rapid growth of credit; lending policies and procedures of the Bank, including changes in lending strategy; underwriting processes; and more.

The estimate of the allowance for credit losses also includes a component of expected recoveries, based on historical information in connection with the timing and rate of expected debt recovery after write-off of the debt, according to the time from the date of the write-off, and additional relevant characteristics. For commercial portfolio transactions, a qualitative process is performed in which the expected recovery is examined at the level of the customer.

Where uncertainty exists as a result of the need to improve calculation processes and estimates, conservative coefficients were added at the level of the risk components PD, LGD, or EAD. These matters are examined periodically and the level of conservatism is amended according to improvements made to the estimate process.

The Bank has also established criteria and factors that are taken into account to determine that for certain exposures to governments, expected credit losses are near zero.

Note 1 Significant Accounting Policies (continued)

Allowance for credit losses – bonds available for sale

The Bank estimates expected credit losses in respect of bonds available for sale at each reporting date when the fair value is lower than the amortized cost. At each date when the fair value is lower than the amortized cost, the Bank examines whether the decline in fair value results from credit losses or from other factors. Impairment arising from credit losses is recorded within the allowance for credit losses, whereas impairment not recorded through an allowance for credit losses is recorded through other comprehensive income, net of tax.

The Bank calculates the allowance for expected credit losses in respect of bonds available for sale, individually, using the discounted cash flow method. This allowance is recorded against a provision for credit losses, to reflect the credit loss component of the fair value falling below the amortized cost. The allowance for credit losses in respect of bonds available for sale is limited such that its amount cannot exceed the amount of the difference between the amortized cost and the lower fair value, referred to as the fair value floor. If the fair value of the security rises over time, any allowance for credit losses not charged off is eliminated by reducing the provision for credit losses.

Allowance for credit losses – credit evaluated on an individual basis

In accordance with the guidelines established in the standard, when the Bank finds that a financial asset does not have shared risk characteristics similar to the risk characteristics of other financial assets, the Bank assesses the allowance for credit losses in respect of such assets on an individual basis. These financial assets primarily include non-accruing commercial credit with a contractual balance greater than NIS 1 million. In these cases, the allowance is calculated on an individual basis using the discounted cash flow method and/or based on the value of collateral for collateral-dependent loans. The foregoing does not referred to troubled debt restructuring of small retail debts with similar risk characteristics, the allowance for which is calculated on a collective basis.

Charge-offs

The Bank performs charge-offs for any debt or part of a debt thought to be uncollectible and of such low value that its retention as an asset is unjustified, or debt in respect of which the Bank has carried out prolonged collection efforts (defined in most cases as a period exceeding two years). With regard to collateral-dependent debt, the Bank performs an immediate charge-off against the allowance for credit losses of the part of the recorded debt balance that exceeds the fair value of the collateral.

With regard to commercial credit in respect of debt with a contractual balance of less than NIS 1 million, and non-housing credit to private individuals, the Bank performs a charge-off when they become debts past due by 150 days or more. In this context, note that if the debt is secured by collateral other than a residence, and the seizure of the collateral has commenced and is ensured, the Bank charges off only the part of the recorded balance that exceeds the value of the collateral (net of selling costs).

Note 1 Significant Accounting Policies (continued)

With regard to housing loans secured by a residential property, the Bank performs a current evaluation of the value of the collateral, no later than the date when the debt becomes a debt past due by 180 days or more, and charges off the part of the recorded debt balance that exceeds the current value of the collateral (net of selling costs).

It is hereby clarified that charge-offs do not entail a legal waiver, and serve to reduce the reported balance of the debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books. The balance of a debt recorded in the books is defined as the debt balance, after deducting charge-offs, but before deducting the allowance for credit losses in respect of the debt.

5. Securities

a. Investments in bonds are classified upon acquisition into one of three portfolios: bonds held to maturity, bonds available for sale, and securities held for trading. Investments in shares are classified upon acquisition into one of two portfolios: held for trading and not held for trading.

- **Bonds held to maturity –** Bonds which the Bank has the intention and ability to hold until their maturity date. Bonds held to maturity are stated in the balance sheet at cost, plus interest and accrued linkage and exchange-rate differentials, taking into account the proportional part of the premium or discount.
- **Bonds available for sale –** Bonds not classified as bonds held to maturity or as securities held for trading. The bonds are included in the balance sheet at their fair value on the reporting date. Unrealized profits or losses from adjustments to fair value are reported net of an appropriate reserve for tax, in a separate item of equity within accumulated other comprehensive income. Realized profits or losses are stated in the item of non-interest financing income from non-trading activity.
- **Securities held for trading –** Securities acquired and held with the aim of selling them in the near future, and securities which the Bank has chosen to measure at fair value through profit and loss, using the fair-value option. Securities held for trading are stated in the balance sheet at fair value on the reporting date. Profits and losses from adjustments to fair value are recorded to the statement of profit and loss, in the item of non-interest financing income from trading activity.
- **Shares not held for trading**
  - Shares with a readily available fair value – Measured at fair value on the reporting date; profits and losses from adjustments to fair value are recorded to the statement of profit and loss.
  - Shares without a readily available fair value – Measured at cost net of impairment, if any, plus or minus observable price changes in ordinary transactions for identical or similar investments of the same issuer. Unrealized profits or losses from adjustments to such observable price changes are recorded to the statement of profit and loss.

b. Income from dividends, interest accrual, linkage and exchange-rate differentials, premium reduction or discounts (according to the effective interest-rate method), and losses from other-than-temporary impairment are recorded to the statement of profit and loss.

c. The cost of realized securities is calculated on an average basis.

Note 1 Significant Accounting Policies (continued)

d. With regard to the treatment of impairments, see Section E(8) below.

e. Fair value designation – The directives of the Banking Supervision Department allow a choice, at specified dates, to measure financial instruments at fair value, such that unrealized profits and losses in respect of the changes in fair value of the items for which the fair-value option is selected are reported in the statement of profit and loss in every subsequent reporting period. In addition, prepaid costs and fees related to items for which the fair-value option has been selected are recognized in profit and loss as incurred. The choice to apply the fair-value option is performed instrument by instrument and irrevocably.

6. Derivative financial instruments, including hedge accounting

a. The Bank holds derivative financial instruments for the purpose of hedging foreign-currency risks and interest-rate risks, as well as derivatives not used for hedging.

b. At the date of creation of the hedge, the Bank formally documents the hedging relationship between the hedging instrument and the hedged item, including the risk-management goal and strategy of the Bank in performing the hedge, and the manner in which the Bank plans to assess the effectiveness of the hedging relationship. The Bank assesses the effectiveness of the hedging relationship both at the inception of the hedge and on an ongoing basis, in accordance with its risk-management policy.

c. Fair-value hedges

Changes in the fair value of a derivative financial instrument designated for hedging fair value are recorded to the statement of profit and loss. The hedged item is also stated at fair value, with reference to the hedged risks, and the changes in fair value are recorded to the statement of profit and loss. The full changes in the fair value of derivatives designated and qualifying for fair-value hedges are classified into the interest income/expense line, consistently with the classification of the income/expense in respect of the hedged item.

If the hedged instrument no longer complies with the criteria for an accounting hedge, or if it expires or is sold, canceled, or realized, or the Bank cancels the designation of the fair-value hedge, hedge accounting is discontinued.

d. Economic hedges

Hedge accounting is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Bank. Changes in the fair value of these derivatives are recognized in profit and loss as they arise.

e. Derivatives not used for hedging

Changes in the fair value of derivatives not used for hedging are recorded immediately to profit and loss.

f. Embedded derivatives

Note 1 Significant Accounting Policies (continued)

Embedded derivative instruments are separated from the host contract and treated separately if: (a) there is no clear and close connection between the economic characteristics and risks of the host contract and of the embedded derivative instrument, including credit risks arising from certain embedded credit derivatives; (b) a separate instrument with the same terms as the embedded derivative instrument would comply with the definition of a derivative; and (c) the hybrid instrument is not measured at fair value through profit and loss.

An embedded derivative that has been separated is presented in the balance sheet together with the host contract. Changes in the fair value of embedded derivatives that have been separated are recorded immediately to profit and loss.

7. Establishing the fair value of financial instruments

Pursuant to ASC 820-10 (FAS 157), fair value is defined as the price that would be obtained from the sale of an asset, or that would be paid to transfer a liability, in an ordinary transaction between market participants at the date of measurement. In order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Bank. ASC 820-10 specifies a hierarchy of measurement techniques, based on whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities, accessible to the Bank at the measurement date.
- Level 2 data: Directly or indirectly observable inputs regarding the asset or liability other than quoted prices included in Level 1.
- Level 3 data: Unobservable inputs regarding the asset or liability.

The hierarchy requires the use of observable market inputs when such information is available. When the inputs used to measure fair value are classified into different levels of the fair-value hierarchy, the Bank classifies the overall fair-value measurement at the lowest level of an input significant for the overall measurement.

Securities

The fair value of securities held for trading, bonds available for sale, and shares not held for trading with a readily available fair value is determined based on market prices quoted in the principal market. When the security is traded in several markets, the evaluation is performed according to the market price quoted in the most advantageous market. If no quoted market price is available, the fair-value estimate is based on the best available information, with maximum use of observable inputs, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, non-tradability, etc.).

Note 1 Significant Accounting Policies (continued)

Derivative financial instruments

Derivative financial instruments that have an active market were evaluated according to the market value established in the principal market, or in the absence of a principal market, according to the market price quoted in the most advantageous market. Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.).

Assessment of credit risk and nonperformance risk

ASC 820 (FAS 157) requires the Bank to reflect credit risk and nonperformance risk in measuring the fair value of debt, including derivative instruments, issued by the Bank and measured at fair value. Nonperformance risk includes the credit risk of the Bank, but is not limited to this risk alone.

The Bank assesses credit risk in derivative instruments in the following manner:

- When sufficient liquid collateral exists in respect of the exposure, specifically securing the derivative instrument at a high degree of legal certainty, the Bank takes such collateral into consideration in determining the credit risk.
- When exposure in respect of the counterparty is material, the Bank performs a fair-value assessment based on indications of the quality of credit of the counterparty from transactions in an active market, insofar as such indications are available with reasonable effort. The Bank derives these indications, among other matters, from prices of debt instruments of the counterparty traded in an active market, and from prices of credit derivatives the basis for which is the quality of credit of the counterparty. If no such indications exist, the Bank calculates the adjustments based on internal ratings (e.g. estimates of expected default rates and rates of credit losses in the event of default).

The calculation is performed based on an internal model that assumes various scenarios regarding the value of the transactions. For further details regarding the main methods and assumptions used to estimate the fair value of financial instruments, see Note 32 below concerning balances and fair-value estimates of financial instruments.

8. Impairment – financial assets

a. The Bank recognizes impairment of bonds available for sale when the Bank intends to sell the bonds, or when it is probable that the Bank will be required to sell the bonds before their value is recovered. In such case, the amortized cost is written down to the fair value. Also see Section E.4 above with regard to the allowance for credit losses in respect of bonds available for sale and held to maturity.

b. Shares without a readily determinable fair value:
Each reporting period, the Bank performs a qualitative assessment, taking impairment indicators into consideration, in order to assess whether impairment has occurred in investments in shares without a readily determinable fair value. If impairment of the investment in the shares has occurred according to this assessment, the Bank assesses the fair value of the investment in the shares, in order to determine the amount of loss from the impairment.

Note 1 Significant Accounting Policies (continued)

9. Offsetting financial assets and liabilities

The Bank offsets assets and liabilities arising from the same counterparty and presents the net balance thereof in the balance sheet, when the following cumulative conditions are complied with:

- A legally enforceable right exists to offset the liabilities against the assets.
- The Bank intends to settle the liability and realize the assets on a net basis or simultaneously.
- The Bank and the counterparty owe one another determinable amounts.

The Bank offsets deposits where the repayment to the depositor is contingent upon the extent of collection from credit granted from such deposits, when the Bank has no risk of loss from the credit.

In accordance with the directives of the Banking Supervision Department, the Bank does not offset assets in respect of derivative instruments against liabilities in respect of derivative instruments. The Bank therefore continues to present exposures in respect of transactions in a gross amount in its financial statements.

10. Transfers and servicing of financial assets and extinguishment of liabilities

Transfers of financial assets

Transfers of financial assets are accounted for as sales if, and only if, all of the following conditions are met: (1) the financial asset transferred is isolated from the transferring party, including in situations of bankruptcy or other receivership; (2) any recipient may pledge or exchange the assets received, and there is no condition that also restricts the recipient in exercising the right to pledge or exchange, and grants the transferring party a benefit that is greater than a trivial benefit; (3) the transferring party does not retain effective control of the financial assets transferred.

In order for the transfer of part of a financial asset to be considered a sale, the transferred part must comply with the definition of a participating interest. Participating interests meet the following criteria: the right must represent proportional rights relative to the full financial asset; all cash flows obtained from the assets are distributed among the participating interests in a manner proportional to their share of the ownership; the rights are not subordinated to other rights; there is no right of return to the transferring party or to other holders of participating interests (except in cases of the breach of representations or commitments, current contractual commitments to service a financial asset in its entirety and manage the transfer contract, and contractual commitments to share the offsets of any benefits received by any holder of participating interests); and the transferring party and the holder of participating interests have no right to pledge or exchange the financial asset in its entirety, unless all of the holders of participating interests agree to pledge or exchange the financial asset in its entirety.

If the transaction qualifies for sale accounting, the transferred financial assets or the participating interest are derecognized in the balance sheet of the Bank. The difference between the fair value of the net proceeds received and the book value of the financial assets sold is recognized in the statement of profit and loss. If the conditions for a sale are not met, the transfer is considered a secured debt. The sale of part of a financial asset that is not a participating interest is treated as a secured debt; i.e., the transferred assets continue to be recorded in the balance sheet of the Bank, and the consideration from the sale is recognized as a liability of the Bank.

Note 1 Significant Accounting Policies (continued)

Securities lending or borrowing transactions

The Bank implements specific directives established in the Public Reporting Directives for the treatment of securities lending or borrowing transactions in which the loan is executed against the general credit quality and the general collateral of the borrower, or when the borrower does not transfer liquid instruments, which the lender is entitled to sell or pledge, to the lender, as collateral referring specifically to the securities lending transaction. When the Bank lends securities, it derecognizes the securities loaned and recognizes credit in the amount of the market value of the transferred securities. In subsequent periods, the credit is recognized in the same manner in which the security was measured prior to the loan. At the end of the loan, the credit is derecognized and the banking corporation recognizes the security again. When the banking corporation borrows securities in an unsecured borrowing, the banking corporation recognizes the security, and recognizes a deposit against it, according to the value of the security received in the borrowing transaction. The security borrowed by the banking corporation is classified as a security in the trading book until the security is sold short or lent in unsecured borrowing.

Derecognition of a liability

The Bank derecognizes liabilities only when the liability is extinguished. Extinguishment of a liability may be performed through payment to the lender or through judicial release.

11. Fixed assets

Recognition and measurement

Fixed-asset items are measured at cost, with the deduction of accrued depreciation and losses from impairment. Cost includes expenses directly attributable to the acquisition of the asset.

Costs of acquired software that constitute an integral part of the operation of the related equipment are recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Bank classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item "buildings and equipment."

Profit or loss from the disposal of a fixed-asset item is recognized as a net amount under the item "other income" in the statement of profit and loss.

Software costs

Software acquired by the Bank is measured at cost, with the deduction of amortization and losses from impairment.

Capitalization of costs related to the development of software for in-house use begins only when the initial stage of the project has been completed, and when management with the appropriate authority has approved and has undertaken a commitment to finance the project, and it is expected that the development will be completed and that future economic benefits will arise from the software.

Note 1 Significant Accounting Policies (continued)

Overhead costs that cannot be directly attributed to the development of the software and research costs in the initial stage of the project are recognized as expenses as incurred. In addition, the Bank has implemented the guidelines of the Banking Supervision Department concerning capitalization of software costs, pursuant to which a materiality threshold has been set for capitalization. Further, for deliverables with total capitalizable costs not lower than the materiality threshold, a capitalization coefficient lower than 1 has been established, in order to take into account the potential for inefficiency and common deviations in software development projects. The rank of employees whose costs are capitalized to assets has been restricted to the level of manager of the software project. Capitalizable software development costs of all development employees are recorded through individual hour reports.

Subsequent costs

The cost of replacing part of a fixed-asset item and other subsequent costs are recognized as part of the carrying value of fixed assets, if the future economic benefits inherent therein are expected to flow to the Group, and if the cost thereof is reliably measurable. The carrying value of the replaced part of a fixed-asset item is derecognized. Costs of upgrades and improvements of software for internal use are only capitalized if the expenses incurred are expected to lead to added functionality. Routine maintenance costs and other costs are recorded to profit and loss as incurred.

Depreciation and amortization

Depreciation is recorded to the statement of profit and loss using the straight-line method, over the estimated useful life of each component of the fixed-asset items. Leased assets are depreciated over the shorter of the period of the lease and the period of use of the assets. Land owned by the Bank is not depreciated. Improvements to rented properties are depreciated over the shorter of the period of the lease or the period of use of the property. Amortization is recorded to the statement of profit and loss, using the straight-line method, over the estimated useful life, starting on the date when the software is available for use. Software in development is not amortized systematically as long as it is not available for use. Accordingly, a test of impairment is performed at least once a year, until it becomes available for use.

The depreciation method, useful life, and residual value are reexamined at least at the end of each fiscal year, and adjusted when necessary.

12. Impairment of non-financial assets

The Bank examines non-current assets for impairment when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Losses from impairment are recognized only if the carrying value of the asset exceeds its fair value.

The carrying value is unrecoverable if it exceeds the total uncapitalized cash flows expected to derive from the use and realization of the asset.

The loss is recognized in the amount of the difference between the carrying value and the fair value of the asset. This loss is not canceled in subsequent periods.

Note 1 Significant Accounting Policies (continued)

Impairment of in-house software development costs

Impairment of in-house software development costs is recognized and measured upon the occurrence of events or changes in circumstances that indicate a possibility that the carrying value of the asset may not be recovered. Examples of events or changes in circumstances indicating impairment:

a. The software is not expected to provide significant potential services;
b. The manner or volume of use or expected use of the software has changed substantially;
c. The software has been or will be substantially changed;
d. Costs of the development or conversion of the software designated for internal use significantly exceed the expected amounts;
e. The development of the software is not expected to be completed and the software is not expected to be used.

13. Leases

Contracts that grant the Bank control over the use of a property within a lease for a period of time, for a consideration, are treated as leases. Most of the leasing transactions at the Bank are transactions in which the Bank is the lessee in an operating lease. At initial recognition, a liability is recognized in an amount equal to the present value of the future leasing fees over the period of the lease (these payments do not include variable leasing payments). Concurrently, a right-of-use asset is recognized in the amount of the liability in respect of the lease, adjusted for leasing payments paid in advance or accrued, less leasing incentives, plus direct costs incurred in the lease.

The lease period is determined as the period in which the lease cannot be canceled, together with the periods covered by an option to extend or cancel the lease, if it is reasonably certain that the lessee will or will not exercise the option, respectively.

The Bank has chosen to apply the practical relief pursuant to which short-term leases of up to one year are treated such that the leasing fee is recorded to profit and loss using the straight-line method over the period of the lease, without recognition of a right-of-use asset and/or liability in respect of the lease in the balance sheet.

Subsequent measurement

After the initial recognition, the liability in respect of an (operating) lease is measured at depreciated cost, according to the effective interest rate method. At every subsequent reporting date, a right-of-use asset is recognized in the amount of the depreciated cost of the liability in respect of the lease, adjusted for leasing payments paid in advance or accrued, less the balance of leasing incentives, plus undeducted direct costs, and less losses from impairment accrued in respect of the right-of-use asset. The Bank also examines the right-of-use asset for impairment, in accordance with the directives regarding impairment in respect of fixed assets.

Note 1 Significant Accounting Policies (continued)

Operating lease payments

Leasing payments, with the exception of variable leasing fees, are recorded to profit and loss using the straight-line method, over the period of the lease. Leasing incentives received are recognized as an inseparable part of the total leasing expenses, using the straight-line method, over the period of the lease. Variable leasing payments dependent on an index or on changes in a foreign currency are recognized in profit and loss in the period of the change.

14. Employee benefits

Pursuant to the law, agreements, and common practice, the Bank is required to pay retirement benefits to employees, including payments in accordance with defined benefit plans in respect of pensions (e.g. pension allowances, severance pay, and retirement compensation); payments according to other post-retirement and post-employment plans (e.g. holiday gifts, and other well-being and health payments paid to or in respect of retirees); and payments in accordance with defined deposit plans (e.g. payments to provident funds or pension funds, pursuant to Section 14 of the Severance Pay Law, 1963). In addition, pursuant to the directives of the Banking Supervision Department, a banking corporation that expects a group of employees to be paid benefits beyond their contractual terms should take into account the percentage of employees expected to depart (including employees expected to retire under voluntary retirement programs or upon receiving other preferred terms) and the benefits that they are expected to receive upon departure.

The Bank's liabilities for severance pay to employees of the Bank, pursuant to Section 14 of the Severance Pay Law, are treated as a defined deposit plan. The banking corporation recognizes the net cost of the pension for the period, according to the deposits required for that period.

Liabilities of the Bank for severance pay, pensions, and other benefits, other than those pursuant to Section 14 of the Severance Pay Law; other long-term benefits; and other post-employment and post-retirement benefits are treated as a defined benefit plan and calculated on an actuarial basis, taking probabilities into consideration, based on past experience. The discount rate for employee benefits is calculated based on the yield of CPI-linked government bonds in Israel, plus the average spread over corporate bonds rated AA (international) or higher, which is determined based on the difference between rates of yield to maturity, by maturity periods, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of United States government bonds.

Service cost, interest cost, return on plan assets, amortization of net actuarial profit or loss, amortization of cost or credit in respect of prior service, and amortization of actuarial profit or loss included in accumulated other comprehensive income are recorded to profit and loss in respect of the aforesaid benefits.

Actuarial profit or loss is the change in value of a liability in respect of a forecast benefit, or of plan assets, due to a difference between actual experience and estimates, or due to a change in an actuarial assumption. Actuarial profits and losses are included in accumulated other comprehensive income, and depreciated using the straight-line method over the average remaining service period of the employees expected to receive benefits according to the plan.

Note 1 Significant Accounting Policies (continued)

Cost or credit in respect of prior service is depreciated as a component of the net pension cost for the period, in a straight line, over the average remaining service period of the employees expected to receive benefits according to the plan.
Short-term employee benefits (such as labor wages, vacations, and bonuses) are measured on an uncapitalized basis, and the expense is recorded when the related service is rendered.

15. Share-based payment

Share-based payment transactions encompass services received from employees in consideration for the issuance of shares of the Bank, stock options, or other equity instruments. The value of the benefit is measured at the date of award, with reference to the fair value of the equity instruments awarded. The value of the benefit is recognized in profit and loss as a salary expense, against a corresponding increase in equity.

16. Acquisition of shares of the Bank by the Bank

When the Bank buys its own shares, the amount of the consideration paid, including direct costs, is deducted from equity. When the shares are sold or reissued, the amount of the consideration received is recognized as an increase in equity, and the surplus or deficit arising from the transaction is recorded to the balance of the premium.

17. Contingent liabilities

The Bank Group is a party to various legal proceedings, within its activities in a wide range of types of financial services, including claims filed by customers and petitions by various parties to certify claims as class actions. The Group applies the directives of the Banking Supervision Department regarding contingent liabilities, which are based on the directives of Accounting Standards Codification (ASC) 450. Such proceedings are examined individually, with the assistance of legal advisors, who assess the risk of realization of the exposure.
Probable risk refers to a situation in which the probability of realization of the exposure to risk is over 70%. Provisions are included in the financial statements in respect of contingent liabilities in this risk group.
Reasonably possible risk refers to a situation in which the probability of realization of the exposure to risk is between 20% and 70%. In general, no provisions are included in the financial statements in respect of contingent liabilities in this risk group.
Remote risk refers to a situation in which the probability of realization of the exposure to risk is lower than 20%. In general, no provisions are included in the financial statements in respect of contingent liabilities in this risk group.
The Bank Group may also have exposure to the threat of legal claims that have not yet been filed. In assessing risk in respect of these exposures, the Bank Group relies on estimates of the Board of Management and of the functions that handle the exposure, taking into account the materiality and tangibility of the threat, the prospects of success of a legal claim (if filed), and the possible outcomes thereof.

Note 1 Significant Accounting Policies (continued)

A provision for contingent liabilities is recorded if the following two conditions are met: (a) the value of an asset (or liability) is expected to decrease at the reporting date; (b) the amount of the loss can be estimated in a reasonable manner. If the Bank estimates, based on the opinion of its legal advisors, that it is not possible to reliably estimate the amount of a loss, a range of exposure scenarios is prepared, and if a particular amount within that range constitutes, at that date, a better estimate than the other amounts within the same range, that amount is accrued as a provision. If there is no amount within the range that constitutes a better estimate than any other amount, the requirement is to record the minimum amount in the range as a provision.

Legal claims regarding which the Banking Supervision Department has determined that the Bank is required to pay reimbursement are classified as "probable," and a provision is made in respect of each claim commensurate with the amount that the Bank is required to reimburse.

No provision is made in rare cases in which, in the opinion of the Bank's Board of Management, based on legal counsel, it is not possible to estimate the probability of realization of the exposure to risk in respect of an ordinary claim or in respect of a petition to certify claim as a class action even after the Bank has published four financial statements since it was presented with the claim.

Income in respect of a gain contingency is recognized when the income has been realized or is realizable. To make this determination, the Bank takes the full range of facts and circumstances into consideration, including legal opinions, to the extent relevant.

In general, Note 25.D contains disclosure of any claim in an amount greater than 0.5% of the capital of the Bank. In addition, disclosure is given to the amount of the additional exposure in respect of legal claims the probability of realization of which is not remote.

According to the assessment of the Board of Management and based on the opinions of its legal advisors, the financial statements include sufficient provisions for contingent liabilities.

18. Expenses for income taxes

The financial statements of the Bank include current taxes and deferred taxes. Current and deferred taxes are recorded to the statement of profit and loss, unless the tax arises from a transaction or event recognized directly in equity or in other comprehensive income. In such cases, the expense for income taxes is recorded to equity or to other comprehensive income, as relevant. The provision for taxes on the income of the Bank and its consolidated companies which are financial institutions for the purposes of value-added tax includes a profit tax imposed on income under the Value Added Tax Law. The wage tax applied to financial institutions pursuant to the Value Added Tax Law is included in the statement of profit and loss under the item, "salaries and related expenses."

Note 1 Significant Accounting Policies (continued)

Current taxes

Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under laws enacted at the balance sheet date, including changes in tax payments referring to previous years.

Deferred taxes

The Bank recognizes deferred taxes with reference to temporary differences between the carrying value of taxable assets and liabilities for the purposes of financial reporting and their value for tax purposes.

Beginning January 1, 2017, the Bank recognizes a deferred-tax liability for taxable temporary differences accrued at local subsidiaries as of that date. In accordance with the transitional directives established in the directives of the Supervisor of Banks, no deferred-tax liability was included in respect of taxable temporary differences accrued at local subsidiaries up to December 31, 2016. These temporary differences may only be taxable at the time of a disposal event or dividend distribution. If the Bank had always been required to apply the directives of the standard and recognize deferred-tax liabilities in respect of the aforesaid undistributed profits, the amount of the additional liability for such temporary differences that would arise from dividend distribution of local subsidiaries is estimated at a total of approximately NIS 0.5 billion.

The Bank recognizes deferred-tax assets in respect of all deductible temporary differences and losses carried forward. The Bank records a valuation allowance against a deferred tax asset if it is more likely than not that all or part of the deferred tax asset will not be realized.

The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws enacted at the balance sheet date.

The creation of net deferred tax assets shall not exceed the current taxes in the accounting period, except in special cases in which taxable income is expected to exist in the future against which they can be utilized.

Offsets of deferred tax assets and liabilities

The Bank offsets deferred-tax assets and liabilities if an enforceable legal right exists to offset current tax assets and liabilities, and they are attributed to the same taxable income item taxed by the same tax authority for the same taxed company, or in different companies in the Group that intend to settle current tax assets and liabilities on a net basis, or the tax assets and liabilities are settled simultaneously.

Uncertain tax positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Recognized tax positions are measured according to the maximum amount with a probability of realization greater than 50%. Changes in recognition or measurement are reflected in the period during which the changes in circumstances that led to the change in the decision occurred.

Note 1 Significant Accounting Policies (continued)

19. Earnings per share

The Bank presents data on basic and diluted earnings per share with respect to its ordinary share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to holders of the ordinary shares of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are determined by adjusting the profit or loss (such as adjustments in respect of the effect of dividends after tax, any financing costs, and other changes) attributed to the holders of ordinary shares and adjusting the weighted average of ordinary shares outstanding, after adjustment for shares in treasury and for the effects of all dilutive potential ordinary shares, which include equity instruments awarded to employees.

F. New accounting standards and new directives of the Banking Supervision Department in the period prior to implementation

Circular on the subject of modifications of the terms of debts of borrowers in financial difficulties

On October 19, 2023, a circular was issued updating the Public Reporting Directives, according to which banks are required to implement the guidelines of ASU 2022-02, which changes the accounting treatment of debts that have undergone troubled debt restructuring. In the circular, the term "debts that have undergone troubled debt restructuring" has been changed to "modifications of terms of debts of borrowers experiencing financial difficulties." According to the circular, disclosure must be given to a modification in the terms of a debt that includes principal forgiveness, an interest-rate reduction, or a term extension causing an other-than-insignificant payment delay, of any borrower experiencing financial difficulties. In addition, the requirement to calculate an allowance for credit losses using the discounted cash flow method for debts that have undergone troubled debt restructuring has been eliminated. A requirement to disclose gross write-offs by the year of origination of the credit has also been added.

The new rules are required to be implemented as of January 1, 2024. Initial implementation is to be performed in accordance with the transitional directives established under United States generally accepted accounting principles.

The Bank is preparing to implement the requirements in accordance with the circular. According to the estimates of the Bank, the circular is not expected to have a material effect, other than the update of disclosure requirements, as noted above.

Note 2 Interest Income and Expenses

NIS millions

	2023	2022	2021
A. Interest income*			
From credit to the public**	**24,709**	16,202	11,050
From credit to governments	**153**	91	45
From deposits with banks	**682**	245	61
From deposits with the Bank of Israel and from cash	**2,790**	1,319	132
From securities borrowed or purchased under agreements to resell	**82**	16	-
From bonds	**4,554**	1,347	396
From other assets	**1**	-	-
Total interest income	**32,971**	19,220	11,684
B. Interest expenses*			
On deposits from the public	**(14,748)**	(4,025)	(983)
On deposits from the government	**(150)**	(23)	(4)
On deposits from banks	**(218)**	(22)	(10)
On securities lent or sold under agreements to repurchase	**(761)**	(187)	(4)
On bonds and subordinated notes	**(980)**	(1,483)	(908)
On other liabilities	**(29)**	(13)	(8)
Total interest expenses	**(16,886)**	(5,753)	(1,917)
Total net interest income	**16,085**	13,467	9,767
C. Details of net effect of hedging derivative instruments on interest income and expenses***			
Interest income	**225**	(9)	(149)
Interest expenses	**(100)**	(2)	7
D. Details of interest income from bonds on a cumulative basis			
Held to maturity	**376**	88	14
Available for sale	**3,352**	1,061	361
Held for trading	**826**	198	21
Total included in interest income	**4,554**	1,347	396

* Includes the effect of hedge relationships.
** Stated net of benefits granted to customers due to the war, in the amount of approximately NIS 97 million.
*** Details of the effect of hedging derivative instruments on subsections A and B.

Note 3 Non-Interest Financing Income

NIS millions

A. Non-interest financing income (expenses) in respect of non-trading activities

	2023	2022	2021
1. From activity in derivative instruments			
Total from activity in derivative instruments[1]	**3,642**	6,069	(1,905)
2. From investment in bonds			
Gains from sale of bonds available for sale	**116**	142	337
Losses from sale of bonds available for sale[2]	**(710)**	(270)	(81)
Total from investment in bonds	**(594)**	(128)	256
3. Net exchange-rate differences	**(2,369)**	(5,659)	1,697
4. Gains (losses) from investment in shares			
Net realized and unrealized gains (losses) from adjustments to fair value of shares not held for trading[3][4]	**313**	(166)	566
Dividend from shares not held for trading	**56**	43	33
Adjustment to fair value of investment in affiliate[5]	**-**	17	13
Total from investment in shares	**369**	(106)	612
5. Other*	**(189)**	(103)	-
Total non-interest financing income (expenses) in respect of non-trading activities	**859**	73	660

* Includes benefits granted to customers due to the war, in the amount of approximately NIS 32 million.

(1) Derivative instruments constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

(2) Including provisions for impairment in the amount of approximately NIS 25 million for the year ended December 31, 2023 (2022: approximately NIS 15 million; 2021: approximately NIS 0 million).

(3) Including provisions for impairment in the amount of approximately NIS 93 million for the year ended December 31, 2023 (2022: approximately NIS 29 million; 2021: approximately NIS 50 million).

(4) Including gains and losses from measurement at fair value of shares with a readily determinable fair value, and upward or downward adjustments of shares without a readily determinable fair value.

(5) Arises from adjustment to a provision for impairment in respect of the Bank's investments in Bank Pozitif.

Note 3 Non-Interest Financing Income (continued)

NIS millions

B. Non-interest financing income in respect of trading activities*

	2023	2022	2021
Net income in respect of derivative instruments held for trading	**383**	517	475
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[(1)]	**25**	(9)	(54)
Total non-interest financing income (expenses) in respect of trading activities**	**408**	508	421
Total non-interest financing income (expenses)	**1,267**	581	1,081
Details of non-interest financing income in respect of trading activities, by risk exposure:			
Interest rate exposure	**(220)**	(73)	98
Foreign currency exposure	**558**	554	299
Share exposure	**70**	27	24
Total	**408**	508	421

* Includes exchange-rate differences arising from trading activity.

** With regard to interest income from investment in bonds held for trading, see Note 2.

(1) Of which, the part of gains (losses) associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS(6) million (2022: NIS (65) million; 2021: NIS(9) million).

Note 4 Fees by Management Approach Segment

NIS millions

	For the year ended December 31, 2023*								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management	Adjustments	Total
Account-management fees	**450**	**263**	**-**	**54**	**57**	**9**	**56**	**-**	**889**
Credit cards, net	**401**	**112**	**-**	**12**	**3**	**-**	**-**	**-**	**528**
Securities activity	**351**	**43**	**-**	**12**	**140**	**-**	**66**	**61**	**673**
Financial product distribution fees[1]	**143**	**13**	**-**	**2**	**3**	**-**	**1**	**-**	**162**
Credit processing	**-**	**22**	**2**	**127**	**146**	**-**	**-**	**-**	**297**
Conversion differences	**196**	**125**	**-**	**17**	**6**	**-**	**4**	**-**	**348**
Foreign-trade activity	**2**	**38**	**-**	**23**	**13**	**1**	**1**	**-**	**78**
Net income from credit portfolio services	**1**	**-**	**3**	**-**	**22**	**-**	**-**	**-**	**26**
Management fees and fees from life insurance and home insurance	**-**	**-**	**41**	**-**	**-**	**-**	**-**	**-**	**41**
Financing transaction fees	**8**	**42**	**-**	**297**	**448**	**30**	**-**	**-**	**825**
Other fees	**11**	**2**	**-**	**-**	**1**	**-**	**11**	**-**	**25**
Total fees	**1,563**	**660**	**46**	**544**	**839**	**40**	**139**	**61**	**3,892**

* Includes the effect of benefits granted to customers due to the war, in the amount of approximately NIS 30 million.

(1) Mainly mutual funds.

Note 4 Fees by Management Approach Segment (continued)

NIS millions

	For the year ended December 31, 2022								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management	Adjustments	Total
Account-management fees	457	259	-	53	53	8	47	-	877
Credit cards, net	366	91	-	11	3	-	-	-	471
Securities activity	405	46	-	13	138	-	74	72	748
Financial product distribution fees[1]	164	10	-	2	2	-	1	-	179
Credit processing	-	24	2	120	91	1	-	-	238
Conversion differences	172	121	-	19	7	-	5	-	324
Foreign-trade activity	2	39	-	25	22	1	1	-	90
Net income from credit portfolio services	1	-	4	-	15	-	-	-	20
Management fees and fees from life insurance and home insurance	-	-	41	-	-	-	-	-	41
Financing transaction fees	10	42	-	243	347	22	1	-	665
Other fees	15	2	-	-	1	-	34	-	52
Total fees	1,592	634	47	486	679	32	163	72	3,705

(1) Mainly mutual funds.

Note 4 Fees by Management Approach Segment (continued)

NIS millions

	For the year ended December 31, 2021								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management	Adjustments	Total
Account-management fees	411	242	-	45	49	5	41	-	793
Credit cards, net	217	51	-	6	1	-	-	-	275
Securities activity	489	56	-	14	94	-	77	74	804
Financial product distribution fees[1]	166	8	-	2	2	-	-	-	178
Credit processing	1	20	1	104	93	1	-	-	220
Conversion differences	151	112	-	15	7	-	3	-	288
Foreign-trade activity	2	37	-	25	12	1	1	-	78
Net income from credit portfolio services	1	-	7	-	15	-	-	-	23
Management fees and fees from life insurance and home insurance	-	-	46	-	-	-	-	-	46
Financing transaction fees	7	41	-	235	312	21	1	-	617
Other fees	16	2	-	-	1	-	14	-	33
Total fees	1,461	569	54	446	586	28	137	74	3,355

(1) Mainly mutual funds.

Note 5 Other Income

	2023	2022	2021
Capital gains from sale of buildings and equipment	**71**	46	92
Income from sale of global private banking customer portfolios	**-**	4	9
Others	**67**	117	88
Total other income	**138**	167	189

Note 6 Salaries and Related Expenses

NIS millions

	2023	2022	2021
Salaries and bonuses	**2,905**	2,835	2,792
Expense incurred from share-based payment transactions settled in equity instruments	**13**	12	13
Other related expenses, including study funds, vacation, and sick days	**690**	644	630
Long-term benefits	**4**	(3)	6
National Insurance and wage tax	**743**	733	721
Pension expenses (including service cost, severance pay, and allowances)	**130**	158	166
Other post-employment benefits	**7**	8	5
Total salaries and related expenses[(1)]	**4,492**	4,387	4,333
(1) Of which: salaries and related expenses outside Israel	**242**	218	219

Note 7 Other Expenses

	2023	2022	2021
Pension expenses (including severance pay and allowances), defined benefit (excluding service cost)	**279**	243	242
Marketing and advertising	**187**	157	143
Communications	**220**	206	194
Computers[(1)]	**525**	475	448
Office	**26**	28	28
Insurance	**42**	43	42
Professional services	**284**	300	378
Compensation and reimbursement of expenses for members of the Board of Directors	**12**	13	11
Training and further education	**63**	65	57
Fees	**319**	318	286
Donations	**41**	31	28
Others	**212**	265	280
Total other expenses	**2,210**	2,144	2,137

(1) Not including salaries, depreciation, and amortization.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss)

NIS millions

A. Composition

	2023	2022	2021
Current taxes:			
In respect of current year	**4,385**	3,540	2,159
In respect of previous years	**56**	79	115
Total current taxes	**4,441**	3,619	2,274
Additions (deductions):			
Deferred taxes:			
In respect of current year	**(509)**	(71)	684
In respect of previous years	**(2)**	-	-
Total deferred taxes	**(511)**	(71)	684
Total provision for taxes[1]	**3,930**	3,548	2,958
(1) Of which: provision for taxes for tax authorities overseas	**143**	46	13

The above table does not include the effect of tax on other comprehensive income. For details, see Note 10.

B. Reconciliation of the theoretical amount of tax for which the Bank would have been liable at the statutory tax rate with the provision for taxes on profit, as recorded in the statement of profit and loss

	2023	2022	2021
Profit before taxes	**11,272**	9,982	7,809
Rate of tax applicable to the Bank in Israel (%)	**34.19**	34.19	34.19
Amount of tax based on statutory tax rate	**3,854**	3,413	2,670
Added (deducted) tax expenses (tax savings) in respect of:			
Income of subsidiaries outside Israel	**11**	11	25
Exempt income and income taxable at limited rates	**-**	(4)	(3)
Depreciation differences, depreciation adjustment, and capital gains	**(2)**	(4)	(4)
Non-deductible expenses	**38**	23	41
Timing differences for which deferred taxes were not recorded	**(7)**	56	68
Taxes in respect of previous years:			
Additional amounts payable in respect of problematic debts	**33**	43	46
Others	**21**	36	69
Income of subsidiaries in Israel	**(8)**	(3)	12
Translation differences in respect of consolidated companies outside Israel	**(10)**	(23)	34
Provision for taxes on profit	**3,930**	3,548	2,958

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

C. Tax assessments

1. The Bank has final tax assessments up to and including the year 2018. The subsidiaries have final tax assessments, or tax assessments considered final, up to 2017-2021. In addition, in late 2023 the Bank signed partial tax assessments in an agreement regarding 2020-2021. The partial tax assessments have no material effect on the financial statements.
2. Over the last few years, Isracard (a former subsidiary that has been sold and separated from the Bank) and Premium Express (a subsidiary of Isracard) received tax assessments from the Customs and VAT Division of the Israel Tax Authority, further to a lateral sectoral audit, which primarily concerned VAT charges for Isracard and Premium Express in respect of issuer fees received from international organizations in connection with cardholders' transactions with businesses outside Israel, and in respect of fees received from cardholders for transactions they execute with businesses outside Israel. A court proceeding regarding this matter is in progress. Further to indemnity provided by the Bank at the time of its separation from Isracard with respect to this matter, the Bank reached understandings with Isracard regarding the limits of the potential indemnity to be applied in accordance with the resolution of this proceeding. The Bank does not expect any material effect on the results of its operations in connection with the resolution of this matter.
3. Within previous tax-assessment discussions conducted by the Bank, the Tax Assessment Officer argued that in the sale of a subsidiary classified as an authorized dealer for the purposes of value-added tax, profit tax should also be applied to distributable profits, which are exempt from corporate tax under the directives of the Income Tax Ordinance. This argument raised in connection with the sale of the Isracard Group was resolved within the partial tax assessments signed as stated in Section 1 above, with no material effect on the financial statements.
4. The Bank includes provisions in its statements in respect of liabilities for taxes on income, as stated above, in accordance with management estimates and based on the assessments of its legal advisors.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

D. Change in deferred taxes

	Balance as at December 31, 2022	Changes recorded to profit and loss	Changes recorded to other comprehensive income	Balance as at December 31, 2023	Average tax rate December 31, 2023
	NIS millions				%
Deferred tax assets					
From allowance for credit losses	1,986	**602**	**-**	**2,588**	**34.2**
From the provision for vacation and bonuses	118	**14**	**-**	**132**	**34.2**
From employee benefits	1,608	**1**	**(66)**	**1,543**	**34.2**
Losses carried forward for tax purposes	502	**498**	**-**	**1,000**	**25.2**
From software assets	40	**(10)**	**-**	**30**	**33.3**
From other non-monetary items	25	**(8)**	**-**	**17**	**34.0**
Gross balance of deferred tax assets	4,279	**1,097**	**(66)**	**5,310**	**32.0**
Unrecognized deferred tax assets	498	**499**	**-**	**997**	**25.2**
Balance of deferred tax assets net of unrecognized deferred tax assets	3,781	**598**	**(66)**	**4,313**	**34.2**
Deferred tax liabilities					
From securities and other monetary items	64	**46**	**-**	**110**	**27.9**
Fixed assets and leases	115	**(9)**	**-**	**106**	**25.5**
In respect of investments in affiliates	270	**52**	**-**	**322**	**11.8**
Other	2	**(2)**	**-**	**-**	**-**
Gross balance of deferred tax liabilities	451	**87**	**-**	**538**	**15.2**
Net balance of deferred tax assets*	3,330	**511**	**(66)**	**3,775**	
* Of which: in respect of activity overseas	1	**(1)**	**-**	**-**	

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

D. Change in deferred taxes (continued)

	Balance as at December 31, 2021	Cumulative effect of initial implementation of CECL directive[1]	Changes recorded to profit and loss	Changes recorded to other comprehensive income	Balance as at December 31, 2022	Average tax rate December 31, 2022
	NIS millions					%
Deferred tax assets						
From allowance for credit losses	1,697	190	99	-	1,986	34.2
From the provision for vacation and bonuses	134	-	(16)	-	118	34.2
From employee benefits	1,852	-	8	(252)	1,608	34.2
Losses carried forward for tax purposes	436	-	66	-	502	21.0
From software assets	68	-	(28)	-	40	34.2
From other non-monetary items	25	-	-	-	25	34.2
Gross balance of deferred tax assets	4,212	190	129	(252)	4,279	31.8
Unrecognized deferred tax assets	405	-	93	-	498	21.0
Balance of deferred tax assets net of unrecognized deferred tax assets	3,807	190	36	(252)	3,781	34.2
Deferred tax liabilities						
From securities and other monetary items	108	-	(41)	(3)	64	21.3
Fixed assets and leases	126	-	(11)	-	115	25.4
In respect of investments in affiliates	254	-	16	-	270	11.9
Other	1	-	1	-	2	28.6
Gross balance of deferred tax liabilities	489	-	(35)	(3)	451	14.8
Net balance of deferred tax assets*	3,318	190	71	(249)	3,330	
* Of which: in respect of activity overseas	2	-	(1)	-	1	

(1) Cumulative effect in respect of the initial implementation of United States accounting principles on the topic "Financial Instruments – Credit Losses" (ASU 2016-13).

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

E. Combined tax rate applicable to the Bank

Taxes paid on profits of banking corporations include corporate tax, imposed pursuant to the Income Tax Ordinance, and profit tax, imposed on financial institutions pursuant to the Value Added Tax Law, as well as wage tax (presented as part of salary expenses). Accordingly, the combined tax rates are as follows:

	Profit tax rate	Income tax rate	Combined tax rate
Year			
2018 forward	17.0%	23.0%	34.2%

On March 4, 2024, the Finance Committee of the Knesset approved the Special Payment for the Achievement of the Budget Objectives Bill (Temporary Order – Swords of Iron), 2024, pursuant to which a bank other than a bank with a small volume of activity ("a bank with assets at a value lower than 5% of the value of assets of all banks in Israel") would pay an annual payment in 2024 and 2025 in an amount equal to 6% of its profits, as defined in the Value Added Tax Law (hereinafter: the "Annual Payment"). It was further stated in the bill that the Annual Payment would not be deductible under the directives of the Income Tax Ordinance. The law, if passed, would take effect on April 1, 2024, and accordingly in 2024 the Annual Payment would apply to a proportional part of this year.

According to the aforesaid bill, if the total aggregate Annual Payment of the banking system exceeds a total of NIS 1.2 billion in 2024 and a total of NIS 1.3 billion in 2025, the amount of the Annual Payment paid by each bank in each of these years would be reduced according to its proportional share of the total aggregate Annual Payment of the banking system, to be calculated based on the statements submitted by each bank to the Israel Tax Authority in accordance with Section 131 of the Income Tax Ordinance in each of the years 2024 and 2025.

On February 20, 2024, the Finance Committee of the Knesset approved the proposal for the Value Added Tax Order (Rate of Tax on a Transaction and on Imports of Goods) (Amendment), 2024. According to the order, the rate of VAT would rise from 17% to 18% beginning January 1, 2025. It is expected that if this order is applied, the rate of profit tax on the Bank would rise to 18% beginning January 1, 2026, so that the combined tax rate applicable to the Bank from 2026 forward would be 34.7%. The order will take effect only after it is approved by the Knesset plenum.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

NIS millions

F. Losses carried forward for tax purposes

	December 31, 2023				
	Balance of losses	Deferred tax assets on losses	Unrecognized deferred tax assets	Recognized deferred tax assets	First expiration year
Losses for tax purposes					
The banking corporation	**1,384**	**462**	**(459)**	**3**	**-**
Subsidiaries in Israel	**290**	**67**	**(67)**	**-**	**-**
Subsidiaries overseas	**2,293**	**471**	**(471)**	**-**	**2024**

	December 31, 2022				
	Balance of losses	Deferred tax assets on losses	Unrecognized deferred tax assets	Recognized deferred tax assets	First expiration year
Losses for tax purposes					
Subsidiaries in Israel	388	90	(86)	4	-
Subsidiaries overseas	2,006	412	(412)	-	2023

G. Agreement of principles regarding the method of recognition for tax purposes of the allowance for credit losses

In February 2012, the Bank and the Tax Assessment Officer signed an agreement of principles regarding the method of recognition for tax purposes of the allowance for credit losses in respect of allowances for impaired debts recorded beginning January 1, 2011. In July 2017, an agreement of principles was signed with the Tax Assessment Officer regarding the method of recognition for tax purposes of the allowance for credit losses for debts measured according to the past-due-based method, with respect to debts the allowance for which was included in the books of the Bank beginning January 1, 2014. Near the date of publication of the financial statements, an agreement of principles is being formulated with the Tax Assessment Officer regarding the allowances for credit losses recorded beginning January 1, 2022. Principles of the agreements:

1. Allowances for individually examined non-accruing debts shall be deductible as an expense for tax purposes in the year in which the provision is recorded in the financial statements of the Bank. In a tax year in which the allowance for such debts is reduced (other than as a result of "charge-offs" or "debt forgiveness"), additional tax shall be added to the Bank's tax liability, based on the formula agreed upon in the agreement.
2. Half of the annual provision for credit losses in respect of allowances for non-accruing debts not examined individually, in the amount of the "charge-off," shall be deductible as an expense for tax purposes in the first year after the year in which it is recorded, and half shall be deductible in the second tax year after the year in which it is recorded.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

3. The annual provision for credit losses for non-accruing debts in respect of housing credit recorded beginning January 1, 2022, is deductible as an expense for tax purposes in the year in which the provision is included in the financial statements of the Bank.
4. With the exception noted in Section 3 above, the annual provision for credit losses in respect of allowances for credit losses measured on a collective basis is not deductible as an expense for tax purposes.
5. It has been determined that the difference between the provision for credit losses in respect of housing credit, up to December 31, 2021, recognized for tax purposes, and the allowance for credit losses for non-accruing debts in respect of housing credit formed due to the initial implementation on January 1, 2022, of generally accepted accounting principles for US banks on the subject of allowance for credit losses, CECL (ASU 2016-13), will be recognized as income for tax purposes in a straight line in 2022-2024.
6. The principles, as they emerge from the aforesaid agreement, have no material effect on the financial statements of the Bank.

H. Agreement regarding subsidiaries outside Israel

The Bank has a settlement with the Tax Assessment Officer for Large Enterprises of May 1986 and a letter of clarifications from the Tax Assessment Officer for Large Enterprises of May 2009 regulating tax payments in Israel in relation to profits of the subsidiaries of the Bank outside Israel.

I. Consensual taxation ruling – mergers in the Bank Group

1. On September 12, 2023, a consensual taxation ruling (hereinafter: the "Tax Ruling") was received from the Professional Division of the Israel Tax Authority regarding a tax exemption in a structural change consisting of two stages (hereinafter: the "Structural Change"), pursuant to and subject to the directives of Section 103C of the Income Tax Ordinance. In accordance with the Tax Ruling, in the first stage, the companies Pekaot Poalim Ltd., Hapoalim American Israeli Ltd., Continental Poalim Ltd., Bitzur Ltd., Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd., Teuda Hevra Finansit Ltd., Tmura Hevra Finansit Ltd., Tarshish Hapoalim Holdings and Investments Ltd., and Hapoalim Hanpakot Ltd. were merged into Bank Hapoalim, on June 30, 2023. In the second stage, Zohar Hashemesh Lehashkaot Ltd., Poalim Betevuna Ltd., and Hapoalim Nechasim (Menayot) Ltd. were merged into Opaz Ltd., on September 30, 2023.
2. The following are the principal restrictions and conditions established in the Tax Ruling:
   a. Most of the assets transferred within the merger and most of the assets that were in the possession of the absorbing companies immediately prior to the merger shall not be sold during a period of two years from the date of the merger, and shall be used in the usual way, under the circumstances, in the course of the company's business.
   b. During the two years from the date of the merger, the absorbing companies will continue the primary economic activity that existed at each of the transferring companies immediately prior to the merger.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

c. The transferring companies and/or the shareholders of the transferring companies and/or any party related thereto were not given and shall not be given any consideration, either directly or indirectly, in money and/or money equivalent, except as explicitly noted in the aforesaid Tax Ruling.
d. No assets and/or liabilities shall be revalued and no step-up of assets and/or liabilities shall be performed for tax purposes in Israel.
e. No assets whatsoever shall be created, including intangible assets, balances, and/or capitalized amounts, as a result of the Structural Change.

3. Within the merger of Hapoalim Hanpakot Ltd. into the Bank, the tax ruling addresses the replacement of bonds of Hapoalim Hanpakot Ltd. with bonds of the Bank, such that the transfer of the liabilities in respect of the bonds is not considered a sale, including in the context of tax withholding at source, and tax continuity applies.

Note 9 Earnings per Ordinary Share

NIS millions

	For the year ended December 31		
	2023	2022	2021
Basic earnings			
Net profit attributed to the ordinary shareholders of the Bank, in NIS millions	**7,360**	6,532	4,914
Weighted average number of ordinary shares			
In shares of par value NIS 1			
Balance as at January 1 of issued and paid-up share capital	**1,336,837,006**	1,336,452,973	1,335,898,103
Effect of RSU	**274,867**	247,487	353,595
Effect of shares purchased during the period	**-**	-	-
Weighted average number of ordinary shares used in the calculation of basic earnings per share as at December 31	**1,337,111,873**	1,336,700,460	1,336,251,698
Diluted earnings			
Net profit attributed to the ordinary shareholders of the Bank, in NIS millions	**7,360**	6,532	4,914
Weighted average number of ordinary shares (diluted)			
In shares of par value NIS 1			
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,337,111,873**	1,336,700,460	1,336,251,698
Effect of RSU	**412,504**	408,009	394,413
Weighted average number of ordinary shares used in the calculation of diluted earnings per share as at December 31	**1,337,524,377**	1,337,108,469	1,336,646,111
Earnings per ordinary share in NIS			
Basic earnings			
Net earnings per share	**5.50**	4.89	3.68
Diluted earnings			
Net earnings per share	**5.50**	4.89	3.68

Note 10 Accumulated Other Comprehensive Income (Loss)

NIS millions

A. Changes in accumulated other comprehensive income (loss), after tax effect

	Other comprehensive income (loss) before attribution to non-controlling interests			Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to shareholders of the Bank
	Adjustments in respect of bonds available for sale at fair value	Adjustments in respect of employee benefits*	Total		
Balance as at January 1, 2021	489	(1,496)	(1,007)	2	(1,009)
Net change during the year	(384)	(205)	(589)	-	(589)
Balance as at January 1, 2022	105	(1,701)	(1,596)	2	(1,598)
Net change during the year	(1,962)	486	(1,476)	(2)	(1,474)
Balance as at January 1, 2023	**(1,857)**	**(1,215)**	**(3,072)**	**-**	**(3,072)**
Net change during the year	**858**	**128**	**986**	**-**	**986**
Balance as at December 31, 2023	**(999)**	**(1,087)**	**(2,086)**	**-**	**(2,086)**

* Mainly reflects adjustments in respect of actuarial estimates at the end of the year, and deduction of amounts previously recorded in other comprehensive income.

Note 10 Accumulated Other Comprehensive Income (Loss) (continued)

NIS millions

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect

	For the year ended								
	December 31, 2023			December 31, 2022			December 31, 2021		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests									
Adjustments for presentation of bonds available for sale at fair value									
Net unrealized gains (losses) from adjustments to fair value	**697**	**(231)**	**466**	(3,068)	1,003	(2,065)	(319)	115	(204)
(Gains) losses in respect of bonds available for sale reclassified to the statement of profit and loss[1]	**594**	**(202)**	**392**	121	(18)	103	(256)	76	(180)
Net change during the year	**1,291**	**(433)**	**858**	(2,947)	985	(1,962)	(575)	191	(384)
Employee benefits									
Net actuarial profit (loss) during the year*	**67**	**(23)**	**44**	584	(200)	384	(487)	168	(319)
Net (gains) losses reclassified to the statement of profit and loss[2]	**127**	**(43)**	**84**	154	(52)	102	173	(59)	114
Net change during the year	**194**	**(66)**	**128**	738	(252)	486	(314)	109	(205)
Total net change during the year	**1,485**	**(499)**	**986**	(2,209)	733	(1,476)	(889)	300	(589)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests									
Net of other comprehensive income (loss) attributed to non-controlling interests	**-**	**-**	**-**	(2)	-	(2)	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank									
Total net change during the year	**1,485**	**(499)**	**986**	(2,207)	733	(1,474)	(889)	300	(589)

* Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

(1) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see Note 3.

(2) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."

Note 11 Cash and Deposits with Banks

NIS millions

	December 31	
	2023	2022
Cash and deposits with central banks	**101,486**	126,254
Deposits with commercial banks	**6,244**	7,170
Total*,**	**107,730**	133,424
* Of which: cash, deposits with banks, and deposits with central banks for an original period of up to three months	**107,114**	132,735
** Excluding collective allowance for credit losses	**10**	8

Note:
For information regarding liens, see Note 26, below.

Note 12 Securities

NIS millions

	December 31, 2023					
	Balance sheet value	Amortized cost	Allowance for credit losses	Cumulative unrecognized gains from adjustments to fair value	Cumulative unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity						
Bonds and debentures						
Israeli government	**13,440**	**13,440**	**-**	**-**	**(415)**	**13,025**
Foreign governments	**1,892**	**1,892**	**-**	**-**	**(209)**	**1,683**
Financial institutions in Israel	**404**	**418**	**(14)**	**18**	**-**	**422**
Total bonds held to maturity	**15,736**	**15,750**	**(14)**	**18**	**(624)**	**15,130**

	Balance sheet value	Amortized cost Gains	Allowance for credit losses Losses	Accumulated other comprehensive income		Fair value*
				Gains	Losses	
2) Bonds available for sale						
Bonds and debentures						
Israeli government	**54,766**	**55,994**	**-**	**143**	**(1,371)**	**54,766**
Foreign governments	**22,134**	**22,229**	**-**	**168**	**(263)**	**22,134**
Financial institutions in Israel	**54**	**54**	**-**	**-**	**-**	**54**
Foreign financial institutions	**9,023**	**8,964**	**-**	**94**	**(35)**	**9,023**
Foreign others	**3,264**	**3,207**	**-**	**59**	**(2)**	**3,264**
Total bonds and debentures available for sale	**89,241**	**90,448**	**-**	**(1)464**	**(1)(1,671)**	**89,241**

	Balance sheet value	Amortized cost (in shares – cost)	Allowance for credit losses	Cumulative unrealized gains from adjustments to fair value	Cumulative unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading						
Shares not held for trading	**4,433**	**4,360**	**-**	**(2)396**	**(2)(323)**	**4,433**
Of which: shares without a readily determinable fair value(3)	**2,861**	**2,943**	**-**	**196**	**(278)**	**2,861**
Total securities not held for trading	**109,410**	**110,558**	**(14)**	**878**	**(2,618)**	**108,804**

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

(1) Included in equity in the item "adjustments for presentation of bonds available for sale at fair value" within other comprehensive income.

(2) Recorded to the statement of profit and loss.

(3) Shares without a readily determinable fair value are stated at cost, net of impairment, adjusted upward or downward to observable prices in ordinary transactions for identical or similar investments of the same issuer. For further details, see Note 32.C.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 12 Securities (continued)

NIS millions

	December 31, 2023					
	Balance sheet value	Amortized cost (in shares – cost)	Allowance for credit losses	Cumulative unrealized gains from adjustments to fair value	Cumulative unrealized losses from adjustments to fair value	Fair value*
4) Securities held for trading						
Bonds and debentures						
Israeli government	**16,097**	**16,126**	**-**	**44**	**(73)**	**16,097**
Foreign governments	**1,615**	**1,611**	**-**	**4**	**-**	**1,615**
Total securities held for trading	**17,712**	**17,737**	**-**	**(1)48**	**(1)(73)**	****17,712**
Total securities[(2)(3)]	**127,122**	**128,295**	**(14)**	**926**	**(2,691)**	**126,516**

	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of bonds available for sale in an unrealized loss position, excluding credit losses								
Bonds and debentures								
Israeli government	**24,141**	**(464)**	**-**	**(464)**	**16,398**	**(907)**	**-**	**(907)**
Foreign governments	**3,302**	**(47)**	**-**	**(47)**	**3,269**	**(216)**	**-**	**(216)**
Foreign financial institutions	**884**	**(16)**	**-**	**(16)**	**1,349**	**(19)**	**-**	**(19)**
Foreign others	**157**	**(1)**	**-**	**(1)**	**171**	**(1)**	**-**	**(1)**
Total bonds and debentures available for sale	**28,484**	**(528)**	**-**	**(528)**	**21,187**	**(1,143)**	**-**	**(1,143)**

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

** Of which: securities in the amount of NIS 522 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.

(1) Recorded to the statement of profit and loss.

(2) Of which: securities in the amount of approximately NIS 18.9 billion pledged to lenders; see Note 26.

(3) Securities loaned in the amount of approximately NIS 909 million are presented within the item "credit to the public."

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 12 Securities (continued)

NIS millions

	December 31, 2022					
	Balance sheet value	Amortized cost	Allowance for credit losses	Cumulative unrecognized gains from adjustments to fair value	Cumulative unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity						
Bonds and debentures						
Israeli government	8,016	8,016	-	-	(452)	7,564
Foreign governments	1,801	1,801	-	-	(217)	1,584
Financial institutions in Israel	299	316	(17)	18	-	317
Total bonds held to maturity	10,116	10,133	(17)	18	(669)	9,465

	Balance sheet value	Amortized cost	Allowance for credit losses	Accumulated other comprehensive income		Fair value*
				Gains	Losses	
2) Bonds available for sale						
Bonds and debentures						
Israeli government	51,751	53,138	-	91	(1,478)	51,751
Foreign governments	21,652	22,567	-	54	(969)	21,652
Foreign financial institutions	7,534	7,642	-	30	(138)	7,534
Foreign others	3,170	3,164	-	26	(20)	3,170
Total bonds and debentures available for sale	84,107	86,511	-	(1)201	(1)(2,605)	84,107

	Balance sheet value	Amortized cost (in shares – cost)	Allowance for credit losses	Cumulative unrealized gains from adjustments to fair value	Cumulative unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading						
Shares not held for trading	4,048	**4,043	-	(2)**301	(2)**(296)	4,048
Of which: shares without a readily determinable fair value(3)	2,315	**2,337	-	**182	**(204)	2,315
Total securities not held for trading	98,271	100,687	(17)	520	(3,570)	97,620

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

** Reclassified to reflect the cumulative amounts of unrealized gains or losses.

(1) Included in equity in the item "adjustments for presentation of bonds available for sale at fair value" within other comprehensive income.

(2) Recorded to the statement of profit and loss.

(3) Shares without a readily determinable fair value are stated at cost, net of impairment, adjusted upward or downward to observable prices in ordinary transactions for identical or similar investments of the same issuer. For further details, see Note 32.C.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 12 Securities (continued)

NIS millions

	December 31, 2022					
	Balance sheet value	Amortized cost (in shares – cost)	Allowance for credit losses	Cumulative unrealized gains from adjustments to fair value	Cumulative unrealized losses from adjustments to fair value	Fair value*
4) Securities held for trading						
Bonds and debentures						
Israeli government	7,706	7,855	-	-	(149)	7,706
Foreign governments	765	781	-	-	(16)	765
Foreign financial institutions	420	442	-	-	(22)	420
Foreign others	238	270	-	1	(33)	238
Total securities held for trading	9,129	9,348	-	(1)1	(1)(220)	9,129
Total securities(2)(3)	107,400	110,035	(17)	521	(3,790)	106,749

	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of bonds available for sale in an unrealized loss position, excluding credit losses								
Bonds and debentures								
Israeli government	29,448	(714)	-	(714)	8,881	(764)	-	(764)
Foreign governments	10,372	(299)	-	(299)	8,054	(670)	-	(670)
Foreign financial institutions	4,572	(117)	-	(117)	400	(21)	-	(21)
Foreign others	1,096	(12)	-	(12)	314	(8)	-	(8)
Total bonds and debentures available for sale	45,488	(1,142)	-	(1,142)	17,649	(1,463)	-	(1,463)

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Recorded to the statement of profit and loss.
(2) Of which: securities in the amount of approximately NIS 24.6 billion pledged to lenders; see Note 26.
(3) Securities loaned in the amount of approximately NIS 2,093 million are presented within the item "credit to the public."

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 13 Credit Risk, Credit to the Public, and Allowance for Credit Losses

NIS millions

The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022, prospectively.

1. Debts, bonds held to maturity and available for sale, credit to the public, and allowance for credit losses

	December 31, 2023					
	Credit to the public				Banks, governments, and bonds	Total
	Commercial*	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	**219,221**	**-**	**-**	**219,221**	**106,933**	**326,154**
Debts examined on a collective basis	**28,907**	**131,563**	**34,684**	**195,154**	**15,736**	**210,890**
Total[(1)]	**248,128**	**131,563**	**34,684**	**414,375**	**122,669**	**537,044**
(1) Of which:						
Non-accruing debts	**3,035**	**755**	**222**	**4,012**	**-**	**4,012**
Debts 90 days or more past due	**210**	**-**	**87**	**297**	**-**	**297**
Other problematic debts	**3,701**	**-**	**380**	**4,081**	**-**	**4,081**
Total problematic debts	**6,946**	**755**	**689**	**8,390**	**-**	**8,390**
Allowance for credit losses in respect of debts						
Debts examined on an individual basis	**4,658**	**-**	**-**	**4,658**	**25**	**4,683**
Debts examined on a collective basis	**663**	**593**	**1,080**	**2,336**	**14**	**2,350**
Total allowance for credit losses[(2)]	**5,321**	**593**	**1,080**	**6,994**	**39**	**7,033**
(2) Of which: allowance in respect of non-accruing debts	**924**	**66**	**140**	**1,130**	**-**	**1,130**
Of which: allowance in respect of other problematic debts	**448**	**-**	**81**	**529**	**-**	**529**

* The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 87 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

Note 13 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

1. Debts, bonds held to maturity and available for sale, credit to the public, and allowance for credit losses (continued)

	December 31, 2022					
	Credit to the public				Banks, governments, and bonds	Total
	Commercial*	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	201,052	-	-	201,052	103,377	304,429
Debts examined on a collective basis	29,973	128,105	35,132	193,210	10,116	203,326
Total[(1)]	231,025	128,105	35,132	394,262	113,493	507,755
(1) Of which:						
Non-accruing debts	2,653	581	210	3,444	-	3,444
Debts 90 days or more past due	39	-	44	83	-	83
Other problematic debts	2,476	-	414	2,890	-	2,890
Total problematic debts	5,168	581	668	6,417	-	6,417
Allowance for credit losses in respect of debts						
Debts examined on an individual basis	3,634	-	-	3,634	29	3,663
Debts examined on a collective basis	517	487	897	1,901	17	1,918
Total allowance for credit losses[(2)]	4,151	487	897	5,535	46	5,581
(2) Of which: allowance in respect of non-accruing debts	687	48	93	828	-	828
Of which: allowance in respect of other problematic debts	176	-	64	240	-	240

* The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 72 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

Note 13 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

2. Change in allowance for credit losses*

	Credit to the public				Banks, governments, and bonds	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses as at January 1, 2021	5,142	758	1,026	6,926	5	6,931
Provision (income) for credit losses	(570)	(226)	(425)	(1,221)	1	(1,220)
Charge-offs	(479)	(4)	(341)	(824)	-	(824)
Recoveries of debts charged off in previous years	651	5	366	1,022	-	1,022
Net charge-offs	172	1	25	198	-	198
Allowance for credit losses as at December 31, 2021	4,744	533	626	5,903	6	5,909
Adjustment of opening balance of allowance for CECL	336	(83)	285	538	8	546
Provision (income) for credit losses	(181)	71	40	(70)	36	(34)
Charge-offs	(364)	(6)	(384)	(754)	-	(754)
Recoveries of debts charged off in previous years	484	4	361	849	-	849
Net charge-offs	120	(2)	(23)	95	-	95
Allowance for credit losses as at December 31, 2022	5,019	519	928	6,466	50	6,516
Provision (income) for credit losses	**1,389**	**117**	**379**	**1,885**	**(6)**	**1,879**
Charge-offs	**(534)**	**(27)**	**(550)**	**(1,111)**	**-**	**(1,111)**
Recoveries of debts charged off in previous years	**356**	**19**	**355**	**730**	**-**	**730**
Net charge-offs	**(178)**	**(8)**	**(195)**	**(381)**	**-**	**(381)**
Other**	**(25)**	**-**	**-**	**(25)**	**-**	**(25)**
Allowance for credit losses as at December 31, 2023	**6,205**	**628**	**1,112**	**7,945**	**44**	**7,989**
Of which: in respect of off-balance sheet credit instruments						
December 31, 2021	766	-	31	797	-	797
December 31, 2022	868	32	31	931	4	935
December 31, 2023	**884**	**35**	**32**	**951**	**5**	**956**

* With regard to the policy of the Bank on this subject, see Note 1, above.
** Net asset balances in respect of a subsidiary that has been sold.

Note 14 Credit to Governments

NIS millions

	December 31	
	2023	2022
Credit to the government of Israel	**1,644**	768
Credit to foreign governments	**1,531**	1,389
Total credit to governments*	**3,175**	2,157
* Excluding collective allowance for credit losses	**15**	21

Note 15 Investments in Affiliates and Information Regarding the Affiliates

A. Investments in equity-basis investees – composition

	2023	2022
	Equity-basis investees	
Investments in shares stated on an equity basis	**1,527**	1,198
Of which:		
Accrued post-acquisition profits, net	**225**	207
Details of the book value and market value of marketable investments		
Book value	**367**	350
Market value	**250**	280

B. Share in profits of equity-basis investees, net

	2023	2022	2021
The Bank's share in net profits (losses) of equity-basis investees	**18**	99	49

Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

C. Details of principal affiliates

	December 31											
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
	Share in voting rights and in right to receive profits		Investments in shares stated on an equity basis		Other equity investments		Contribution to net profit attributed to shareholders of the Bank		Dividend recorded		Other items accrued in equity[1]	
							NIS millions					
Consolidated companies												
Poalim Equity - Holdings Ltd.	**100%**	100%	**2,859**	2,758	**1,878**	1,078	**101**	95	**-**	-	**-**	-

Not shown in the list of companies are companies under the full ownership and control of the Bank that are companies of properties used by the Bank or companies that provide services only to the Bank.

D. Poalim Equity Group

The Poalim Equity Group, which serves as the non-financial investment arm of the Bank and is held under its full ownership, operates in two main areas:

Direct equity and quasi-equity investments (including mezzanine) in companies; and investments and ventures in private investment funds, and investment banking in and outside Israel.

Poalim Equity also holds approximately 22.2% of the public company IBI Management and Underwriting Ltd. (formerly Poalim IBI Management and Underwriting Ltd.), which provides consulting, underwriting, and funding management services.

The Bank is considering alternatives for activity in the field of underwriting; as part of this process, Poalim Equity is in talks regarding a minority investment in the Leader Group. There is no certainty that the talks will lead to a deal, and any deal, if attained, would require regulatory approvals to be received.

E. Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland")

In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland. At present, there are no remaining customer accounts at the company. In July 2023, the banking license of Hapoalim Switzerland was returned, with the approval of the Swiss supervisory agency FINMA, and Swiss regulatory supervision over it was discontinued, effective June 30, 2023.

F. Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif")

The Bank Group held 100% of the share capital of Bank Pozitif, in Turkey, which is engaged in corporate banking.

On March 30, 2023, the Bank entered into an agreement for the sale of its holding in Bank Pozitif, for a consideration primarily consisting of repayment of credit granted to Bank Pozitif at the time of completion of the transaction.

On September 13, 2023, the transaction was completed and the holdings of the Bank in Bank Pozitif were transferred to the buyer. The Bank recognized no profit or loss as a result of the completion of the transaction, and it had no other material effect on the financial statements of the Bank. For details regarding the effect of the sale on capital adequacy, see Note 24.I.

Note 16 Buildings and Equipment

NIS millions

A. Composition

	Buildings and land (including installations and improvements to rented properties)	Equipment, including computers, furniture, and vehicles	Software[1]	Total
Cost of assets				
Balance as at December 31, 2021	4,174	2,741	5,741	12,656
Additions	75	120	505	700
Subtractions	(76)	-	(24)	(100)
Balance as at December 31, 2022	4,173	2,861	6,222	13,256
Additions	**336**	**118**	**516**	**970**
Subtractions	**(75)**	**(25)**	**(195)**	**(295)**
Other	**(5)**	**(76)**	**(65)**	**(146)**
Balance as at December 31, 2023*	**4,429**	**2,878**	**6,478**	**13,785**
Depreciation and losses from impairment				
Balance as at December 31, 2021	2,515	2,236	4,350	9,101
Annual depreciation	149	151	363	663
Loss from impairment	-	-	53	53
Subtractions	(59)	-	(24)	(83)
Other	-	-	-	-
Balance as at December 31, 2022	2,605	2,387	4,742	9,734
Annual depreciation	**130**	**139**	**410**	**679**
Loss from impairment	**-**	**-**	**123**	**123**
Subtractions	**(63)**	**(22)**	**(195)**	**(280)**
Other	**(5)**	**(77)**	**(61)**	**(143)**
Balance as at December 31, 2023	**2,667**	**2,427**	**5,019**	**10,113**
Book value				
Balance as at December 31, 2021	1,659	505	1,391	3,555
Balance as at December 31, 2022	1,568	474	1,480	3,522
Balance as at December 31, 2023	**1,762**	**451**	**1,459**	**3,672**
Weighted average depreciation rate, in %, as at December 31, 2022	5.0	19.3	20.0	
Weighted average depreciation rate, in %, as at December 31, 2023	**4.4**	**18.8**	**20.0**	

* Balance of fully depreciated assets included in balance of cost of assets:
Buildings and land, including installations and improvements to rented properties: NIS 1,370 million.
Equipment, including computers, furniture, and vehicles: NIS 2,040 million; software costs: NIS 4,130 million.

(1) Of which: capitalized costs of software developed in-house with a net balance sheet balance in the amount of NIS 1,376 million (December 31, 2022: NIS 1,378 million; December 31, 2021: NIS 1,268 million).

Note 16 Buildings and Equipment (continued)

B. Additional details regarding depreciation:

The depreciation method and the main depreciation rates implemented by the Bank for the various groups of assets are set out below.

Buildings – 2% per year in a straight line.

Land leased from the Israel Land Administration – according to the term of the lease.

Installations and improvements to rental properties – according to the rental period, taking into consideration the Bank's intention to exercise the option to extend the rental period, if such an option exists.

Computers – 20% per year in a straight line.

Office equipment and furniture – 6-15% per year in a straight line.

Software – up to 5 years.

C. The balance sheet balance of buildings available for sale, in the amount of NIS 3 million (December 31, 2022: NIS 11 million), is stated after deduction of the provision for impairment. No loss is expected from the realization of the buildings available for sale, beyond the provisions recorded in respect thereof. In addition, the balance sheet balance of buildings sold, possession of which has not yet been transferred, is in the amount of NIS 2 million (December 31, 2022: NIS 4 million).

D. Rights to land in the amount of NIS 47 million (December 31, 2022: NIS 28 million) have not yet been recorded at the Israel Land Registry Bureau, mainly due to delays in the unification of lots, or the rights are in the process of being recorded.

E. The balance sheet balance of buildings not in use by the Bank, mainly rented buildings, totaled NIS 8 million (December 31, 2022: NIS 10 million), representing investment property rented to others, in both periods.

F. For details regarding the contractual engagement of the Bank for the acquisition of a building for use as headquarters and the betterment of properties in its current use, see Note 25.B.9, below.

Note 16 Buildings and Equipment (continued)

NIS millions

G. Leases

Within leasing arrangements, the Bank leases real estate (primarily office space and branches), vehicles, and equipment, mainly used for the business operations of the Bank. Most of the leasing arrangements of the Bank are classified as operating leases.

The lease payments in respect of the real-estate and vehicle leasing contracts entered into by the Bank are mainly linked to the consumer price index at the date of the entry into the lease. In equipment leasing contracts entered into by the Bank, leasing payments are based on usage. The average lease period of real estate is approximately 6.9 years. As the interest rate inherent in a lease is not easily determinable, the incremental interest rate of the Bank is used. The Bank does not have significant leasing arrangements classified as finance leases. The lease periods are the contractual periods stated in the leasing contracts, and also include periods arising from extension options which there is a reasonable certainty that the Bank will exercise. Leasing expenses are recognized within the item "maintenance and depreciation of buildings and equipment" in the statement of profit and loss.

The Bank also enters into transactions for leasing of vehicles for its employees, for periods of three years.

a. Leasing expenses

	For the year ended	
	December 31, 2023	December 31, 2022
Expenses in respect of operating leases	**137**	141
Variable leasing expenses	**17**	11
Total leasing expenses	**154**	152

b. Additional information regarding leases

	For the year ended	
	December 31, 2023	December 31, 2022
Cash paid in respect of balances included in lease liability measurement		
Cash flow in respect of routine operations in operating leases	**137**	142
Right-of-use assets recognized in respect of new operating leases	**85**	68
Weighted average remaining period (in years)		
In operating leases	**6.9**	7.1
Weighted average discount rate		
In operating leases	**1.56%**	0.96%

Note 16 Buildings and Equipment (continued)

NIS millions

c. Undiscounted cash flows and liabilities in respect of operating leases, by maturity period

	December 31, 2023		December 31, 2022	
	Undiscounted cash flows	Liability in respect of lease	Undiscounted cash flows	Liability in respect of lease
Up to one year	**130**	**120**	133	127
Over 1 year up to 2 years	**104**	**97**	106	101
Over 2 years up to 3 years	**79**	**73**	78	73
Over 3 years up to 4 years	**68**	**63**	62	58
Over 4 years up to 5 years	**53**	**50**	54	52
Over five years	**162**	**156**	213	196
Total	**596**	**559**	646	607

d. Right-of-use assets and liabilities in respect of leases

	December 31	
	2023	2022
Right-of-use assets in respect of operating leases		
Other assets	**548**	601
Liability in respect of operating lease		
Other liabilities	**559**	607

Note 17 Other Assets

	December 31	
	2023	2022
Deferred tax assets, net*	**3,880**	3,440
Current taxes – excess of advances paid over current liability for income tax	**49**	26
Assets received in respect of discharged credit	**-**	-
Expenses for issuance of bonds and subordinated notes	**69**	81
Income receivable	**199**	234
Prepaid expenses	**439**	463
Assets in respect of activity in the Maof market[(1)]	**11**	25
Right-of-use assets in respect of operating lease	**548**	601
Other receivables and debit balances[(2)]	**776**	1,325
Total other assets	**5,971**	6,195

* See also Note 8.D.

(1) Stated at fair value.

(2) As at December 31, 2023, includes the receivables balance in respect of the clearing house, for the sale of securities in the amount of approximately NIS 310 million (as at December 31, 2022, a total of approximately NIS 906 million).

Note 18 Deposits from the Public

NIS millions

A. Types of deposits, by location of deposit taking and by type of depositor

	December 31	
	2023	2022
In Israel		
On demand		
Non-interest bearing	**151,637**	191,829
Interest bearing	**135,484**	130,407
Total on demand	**287,121**	322,236
Fixed term	**238,336**	185,537
Total deposits from the public in Israel*	**525,457**	507,773
Outside Israel		
On demand		
Non-interest bearing	**1,392**	1,499
Interest bearing	**8,396**	6,230
Total on demand	**9,788**	7,729
Fixed term	**19,350**	17,086
Total deposits from the public outside Israel	**29,138**	24,815
Total deposits from the public	**554,595**	532,588
* Of which:		
Deposits of private individuals	**214,169**	201,758
Deposits of institutional entities	**98,368**	92,678
Deposits of corporations and others	**212,920**	213,337

B. Deposits from the public by size

	December 31	
	2023	2022
Deposit ceiling (in NIS millions)		
Up to 1	**160,229**	154,697
Over 1 up to 10	**130,519**	122,042
Over 10 up to 100	**79,878**	77,985
Over 100 up to 500	**50,427**	54,878
Over 500	**133,542**	122,986
Total	**554,595**	532,588

Note 19 Deposits from Banks

NIS millions

	December 31	
	2023	2022
In Israel		
Commercial banks		
On-demand deposits	**5,001**	2,801
Fixed-term deposits	**413**	1,107
Acceptances	**141**	233
Central banks		
On-demand deposits	**251**	460
Fixed-term deposits	**3,272**	4,042
Outside Israel		
Commercial banks		
Fixed-term deposits	**-**	45
Acceptances	**7**	8
Total deposits from banks	**9,085**	8,696

Note 20 Bonds and Subordinated Notes

A. Composition

	December 31			
	2023			2022
	Average duration[1]	Internal rate of return[2]	NIS millions	
Bonds and subordinated notes not convertible into shares				
In Israeli currency				
Unlinked	**3.3**	**1.82%**	**3,960**	4,372
Linked	**3.6**	**0.24%**	**11,840**	17,128
Bonds and subordinated notes convertible into shares				
In Israeli currency				
CPI-linked	**4.0**	**3.29%**	**2,602**	2,154
In foreign currency				
USD	**2.7**	**6.49%**	**3,398**	3,212
Total bonds and subordinated notes*[3]	**3.4**	**1.69%**	**21,800**	26,866
Of which: subordinated notes				
Included in Tier 1 capital	**-**	**-**	**-**	-
Included in Tier 2 capital	**-**	**-**	**8,269**	9,517
Others not included in capital	**-**	**-**	**119**	586
Total subordinated notes	**3.3**	**3.39%**	**8,388**	10,103

* According to the terms of the issue, under certain circumstances, the bonds are eligible for early redemption.

(1) The average duration is the average maturity period, weighted by the cash flow discounted at the internal rate of return.

(2) The internal rate of return is the interest rate that discounts the expected flow of payments to the balance sheet balance included in the financial statements.

(3) Of which: tradable, including bonds and subordinated notes traded on the Retzef Mosdi'im (TACT Institutional) system, in the amount of NIS 21,786 million (December 31, 2022: NIS 26,845 million), and the remaining amount not listed for trading.

Note 20 Bonds and Subordinated Notes (continued)

NIS millions

B. Additional details regarding subordinated notes

In April 2023, full early redemption of Subordinated Notes (Series R) of a scope of approximately NIS 1.2 billion was executed.

In December 2023, the Bank executed full early redemption of Subordinated Notes (Series H) of a scope of approximately NIS 0.8 billion.

In December 2023, the Bank issued Subordinated Notes (Series K) at a volume of approximately NIS 0.4 billion. The notes are linked to the consumer price index and bear interest at a fixed rate of 3.71%.

The Subordinated Notes Series K include a mechanism for principal loss absorption through forced conversion (full or partial) into ordinary shares of the Bank under certain circumstances: a constitutive event for principal loss absorption and/or a constitutive event for non-viability, according to Proper Conduct of Banking Business Directive 202. The Subordinated Notes Series K are included in the Tier 2 capital of the Bank, pursuant to Proper Conduct of Banking Business Directive 202; they are for a period of eleven years from the date of issuance thereof; and the Bank has an option for full early redemption, beginning six years from the date of issuance.

Note 21 Other Liabilities

	December 31	
	2023	2022
Deferred tax liability, net*	**105**	110
Current taxes – surplus current income-tax liability over advances paid	**2,494**	1,234
Prepaid income	**345**	305
Employees in respect of wages	**1,026**	1,115
Provision for severance pay, retirement compensation, and pensions**	**4,311**	4,435
Expenses payable	**815**	856
Creditors in respect of credit-card activity	**3,490**	3,759
Allowance for credit losses in respect of off-balance sheet credit risk	**956**	935
Liabilities in respect of activity in the Maof market[(1)]	**11**	25
Other creditors and credit balances	**1,553**	1,137
Liability in respect of operating lease	**559**	607
Total other liabilities	**15,665**	14,518

* See also Note 8D.
** See also Note 22.
(1) Stated at fair value.

Note 22 Employee Benefits

The employees of the Bank include:

a. Permanent and temporary employees – Employees whose terms of employment are established in collective agreements and arrangements formulated from time to time between the Bank and the Employee Union of the Bank;
b. Employees under personal contract – Employees whose terms of employment are established in personal contracts, such that most collective agreements and arrangements do not apply to them;
c. Employees under executive personal contract – Certain employees within the senior management stratum of the Bank (including the CEO, members of the Board of Management, and other senior executives), whose terms of employment are established in personal contracts, such that the collective agreements and arrangements do not apply to them.

The main terms of employment of the employees of the Bank are described below.

A. Terms of employment of permanent and temporary employees

In accordance with the rules customary at the Bank, several processes affect the cost of wages. These processes include, among other matters, promotions and changes in job descriptions; salary raises resulting from accrued seniority; and employee rank increases due to the range of ranks appropriate to a position.
The principal benefits, beyond the regular salary components, to which the aforesaid employees of the Bank are entitled are set out below.

1. Annual bonus contingent upon rate of return

In the collective wage agreement signed by the Bank with the employee representatives on August 2, 2023, for 2023-2027, an updated annual bonus mechanism was established, at up to 2.5 monthly salaries per year, contingent on return on equity in a range to be determined by the Bank each year. Bonuses not dependent on the rate of return, or under circumstances in which the aforesaid rate of return is not attained, can be granted with the approval of the Remuneration Committee and the Board of Directors.

2. Other benefits

Employees of the Bank are entitled to additional benefits, during and after the period of their employment, primarily the following:

Vacation

Bank employees are entitled, by law and according to labor agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses.

25-year service grant

Employees are entitled to a grant in the amount of one monthly salary at the end of 25 years of employment at the Bank. This liability is calculated based on actuarial calculations, taking into account real salary gains influenced by the employee's age.

Note 22 Employee Benefits (continued)

Other post-employment benefits

After retirement or after taking early retirement, Bank employees are entitled to a grant in respect of unutilized sick days, benefits for holiday gifts, and participation in well-being costs.

These liabilities are calculated based on actuarial calculations that take into account, as relevant, among other things, real salary gains influenced by employee age and mortality and disability rates.

3. Retirement compensation and pensions

General information

The pension rights of employees reaching retirement age are covered by the amounts accumulated in pension funds and in allowance-based provident funds. Employees who retire or who take early retirement are not entitled to severance pay.

Pensions for employees taking early retirement

Employees who take early retirement in an allowance-based track are entitled to a monthly bridge pension, until the date established in the retirement agreement. The provision is based on an actuarial calculation.

Early retirement of active employees

In addition to the rights described above, in its actuarial calculation of the liability in respect of employee benefits, the Bank includes a liability in respect of employees who the Board of Management of the Bank expects to take early retirement or to depart with other preferred terms.

The liability was calculated based on an actuarial calculation, taking the following into consideration, among other factors:

- A real wage increment influenced by the employee's age.
- The forecast retirement date and retirement track, taking into consideration rates of departure with enlarged severance pay and early retirement, according to the experience of the Bank and management expectations and decisions, in view of factors including the age and gender of the employee.
- A discount rate calculated according to the yield of CPI-linked government bonds in Israel, plus a spread determined according to the directives of the Banking Supervision Department.
- A mortality and disability rate based on current mortality tables published by the Chief Actuary of the Ministry of Finance.

4. Collective wage agreement for 2023-2027

On August 2, 2023, the Bank and the Employee Union signed a wage agreement for 2023-2027.

The wage agreement comprises the following principal components, among other matters:

1. In addition to the mechanisms for regular promotions and salary raises customarily applied at the Bank, the employees covered by the collective agreement will receive a permanent monthly wage increment in NIS, in the amount of up to NIS 1,000 per employee, in phases over the years of the agreement, of which an increment of NIS 300 is contingent on the attainment of a rate of return of 15% or more in the years 2026 and 2027 (the increments are linked to the CPI).
2. Additional targeted increments for various segments within the Bank, with an emphasis on special bonuses and expanded possibilities for promotion in rank for branch employees, as well as improved benefits for various segments within the Bank.

Note 22 Employee Benefits (continued)

3. A bonus in the amount of two monthly salaries, in two equal parts in 2023 and 2024, at a total cost of approximately NIS 200 million.
4. Establishment of an updated annual bonus mechanism of up to 2.5 monthly salaries per year, contingent on return on equity in a range to be determined by the Bank each year.
5. To support the strategic objectives of the Bank, as part of its preparations for the changes underway in the banking industry and the shifts in the job market, various accords were formulated that contribute to heightened managerial flexibility and increased productivity at the Bank. The following was agreed, among other matters:
   a. The option to terminate the employment of up to 30 permanent employees, due to incompatibility, during the period of the agreement, based on an agreed outline.
   b. Continued hiring of employees under personal contracts, particularly in the technological fields and in other specific professions.
   c. Extension of the temporary employment period of existing temporary employees to up to ten years, gradually, and temporary employment periods of six years at the end of the term of the agreement, permanently.
   d. Accords were attained ensuring the transition to the Poalim Center, including non-payment for the relocation.
   e. Within the Bank's preparations for the future, during the period of the agreement the parties will negotiate to attain a new, simpler wage structure.
   f. Employees who begin working at the Bank after the signing of the agreement will not be eligible for some of the benefits to which existing employees are entitled (a bonus for non-utilization of sick days, a 25-year bonus, and gross-up of deposits into a study fund above the ceiling).
6. The labor dispute declared by the Histadrut General Federation of Labor in Israel will end, and industrial peace will be maintained during the term of the agreement.

The effect of the engagement in this agreement is a one-time increase in salary expenses in the amount of approximately NIS 200 million (before tax) in respect of the nonrecurring bonus. In addition, the Bank estimates that the fixed salary expenses in respect of the agreement (sections 1 and 2 above) are expected to increase each year (relative to the preceding year) by approximately NIS 25 million on average, including actuarial effects.

B. Terms of employment of employees under personal contracts

The customary terms of remuneration for these employees usually include a basic salary, employer contributions to a pension arrangement and study fund, an annual bonus dependent on return, and other benefits during the period of employment.

Note 22 Employee Benefits (continued)

C. Terms of employment of employees under executive personal contracts

1. General information

On October 22, 2020, the general meeting of shareholders of the Bank approved the remuneration policy of the Bank for officers, in effect for the years 2021-2023. The remuneration policy is consistent with the Financial Corporations Officer Remuneration Law (hereinafter: the "Remuneration Limit Law") and the ceiling established therein (hereinafter: the "Remuneration Ceiling"); the Companies Law; and Directive 301A concerning remuneration policy at banking corporations. On September 13, 2020, the Bank adopted a comprehensive remuneration policy for its senior executives, and on later dates it also adopted a policy for its employees who are not senior executives (hereinafter: the "2021 Remuneration Policy" or the "Remuneration Policy"), as well as a remuneration plan consistent with this policy (the "2021 Plan"), which have been updated from time to time.

The main rights and benefits to which the employees of the Bank under executive personal contracts are entitled during the period of their employment are described below.

2. Chairman of the Board of Directors

Mr. Ruben Krupik (the "Chairman") serves as an external director, pursuant to Proper Conduct of Banking Business Directive 301, as of February 18, 2016, and was appointed for a third term of service, ending in February 2025, at the general meeting of October 2021. Mr. Ruben Krupik has served as Chairman of the Board of Directors of the Bank since June 28, 2020.

In April 2022, the Banking Supervision Department issued an update of Proper Conduct of Banking Business Directives 301 and 301A concerning the duties of the chairperson of the board of directors and the terms of service of chairpersons of boards of directors of banks without a controlling core. Updated terms of service for the Chairman of the Board, consistent with the updated supervisory directives, were approved by the general meeting on August 11, 2022. The updated terms of service are in effect as of the beginning of 2022, and as long as Mr. Krupik serves in the office of Chairman. The main points of the terms are the following: the position of the Chairman of the Board is a full-time (100%) position. The Chairman is entitled to annual compensation in the amount of NIS 2.94 million in respect of this office (the "Annual Compensation"), linked to the consumer price index (subject to the total remuneration of the Chairman not exceeding the ceiling pursuant to Section 2(B) of the Remuneration Limit Law). VAT shall be added to this amount in accordance with the law. The Annual Compensation may be paid in monthly payments; in respect of service for part of a year, the proportional share of the Annual Compensation shall be paid. The consideration is paid against an invoice, and the Chairman is not entitled to benefits accompanying wages (such as deposits into compensation or pension funds, or employer contributions to a study fund). In addition to the Annual Compensation, the Chairman is entitled to reimbursement of reasonable expenses in respect of the discharge of his duties, including travel and telephone expenses (subject to the limits included in Directive 301A, and subject to the total remuneration of the Chairman not exceeding the Remuneration Ceiling). The Chairman is insured under the directors and officers' liability insurance policy of the Bank, and holds a letter of indemnity and exemption, like the other officers of the Bank. The updated terms of service do not include provisions pertaining to an advance notice period, non-competition, or a cooling period, which were included in the previous terms of service of the Chairman.

Note 22 Employee Benefits (continued)

3. CEO of the Bank

On October 22, 2020, the general meeting of the Bank approved the terms of remuneration for the CEO for the period from January 1, 2021, to December 31, 2023, following approval by the Remuneration Committee and by the Board of Directors. The main points of the terms of service and employment of the CEO include a monthly salary of NIS 201,500, linked to the CPI; benefits including deposits into severance pay and provident funds, and employer contributions to a study fund; reimbursement of expenses necessary for the discharge of his duties; fixed equity compensation through restricted shares at a value of NIS 100,000, linked to the CPI, restricted from exercise for a period of three years; and an annual bonus up to a ceiling of five monthly salaries (subject to the Remuneration Ceiling; if necessary, the bonus for the CEO will be capped at the level of the ceiling permitted by law). The annual bonus consists of two components: (a) a component of the performance of the Bank, in an amount from 0.25 monthly salaries to two monthly salaries, paid according to the return on equity range applicable to the other officers; and (b) a component at the discretion of the Remuneration Committee and the Board of Directors, in the amount of up to three monthly salaries. If the threshold return on equity conditions are not attained, the Remuneration Committee and the Board of Directors shall be permitted to approve a bonus of up to three monthly salaries for the CEO. In each of the years of the plan, the Board of Directors determines the range of the return, as stated.

Terms of service for 2024-2026 – At the general meeting of November 8, 2023, the terms of service and employment of the CEO of the Bank for the years 2024-2026 were approved, main points of which are the following: the CEO shall serve in a full-time position, and each party is permitted to terminate the agreement with six months' advance notice. The monthly salary of the CEO shall be in the amount of NIS 250,000 (linked to the increase in the known consumer price index). The CEO shall be entitled to benefits, such as employer payments into provident, severance-pay, and pension funds, disability insurance, and a study fund; annual vacation; recuperation; and sick days. The CEO shall be subject to a non-competition period of six months from the date of the actual end of service, and shall be entitled to the payment of six monthly salaries (without employer payments and benefits) in respect of the undertaking of non-competition, which shall be paid at the end of the period, subject to the CEO's upholding this undertaking. The Bank shall be permitted to waive all or part of the aforesaid period, and in such case the payment shall be adjusted proportionally. The CEO may be entitled to an annual bonus, subject to the wage ratio ceiling (provided that it does not exceed a ceiling of three monthly salaries), which shall consist of two components and be calculated as the sum thereof: a component of the performance of the Bank (up to one monthly salary) and a discretionary component (up to two monthly salaries). The CEO shall be entitled to a grant of options for shares of the Bank at a total economic value of NIS 300 thousand in respect of the period of the agreement (three years, and NIS 100,000 for each year of the agreement).

Note 22 Employee Benefits (continued)

4. Members of the Board of Management

Pursuant to the 2021 Plan, the members of the Board of Management are entitled to the following rights and benefits:

Fixed remuneration

Fixed remuneration may include the following components: monthly salary, employer contributions, related benefits, and shares the exercise of which is restricted for a period of 36 months from the end of the year in respect of which they are awarded (as detailed below). The quantity of shares shall be calculated by dividing the value of the compensation, which is established according to the rank of the executive, by the average closing price of the Bank's share on the stock exchange in the 30 trading days preceding the day of the publication of the Bank's annual financial statements. See also Note 23 below.

Variable remuneration – risk-adjusted performance-based annual bonus

- The annual bonus for members of the Board of Management consists of a performance-based component, which is calculated according to the performance of the Bank and influenced by the personal performance of the member of the Board of Management, and a bonus component at the discretion of the supervising function. The annual bonus for officers, which shall have a ceiling of up to 5.0 monthly salaries, is contingent upon the fulfillment of a threshold condition of attainment of a minimum rate of return on equity, to be determined by the Board of Directors. The component of the performance of the Bank shall be paid according to gradations based on a range of the return on equity. It is possible to approve a discretionary bonus in the event of non-fulfillment of the threshold conditions, in the amount of up to 3.0 monthly salaries.
- Additional terms – The remuneration plan includes additional directives relevant to the bonus, in connection with the termination of employment, the postponement and spreading of part of the payment of the bonus, and reduction or reimbursement of the bonus under certain circumstances. In addition, in accordance with the plan, variable remuneration may be capped so that it does not exceed the Remuneration Ceiling pursuant to the Remuneration Limit Law (remuneration of 35 times the salary of the lowest salary recipient).

Early retirement arrangements

Pursuant to the Remuneration Policy, and subject to the transitional directives therein with respect to rights accrued and/or to be accrued (as detailed below), according to the agreements with the members of the Board of Management (including the CEO of the Bank) (hereinafter: the "Senior Employees"), upon the termination of employment as a result of dismissal or resignation, a Senior Employee shall be entitled to severance pay at a rate of 100% in respect of the period from the inception date of the agreement.

Pursuant to arrangements in previous employment agreements with some of the Senior Employees, it has been determined, with respect to the relevant period of such agreements, that in the event that the Bank decides, on its own initiative, to dismiss one of the Senior Employees or to terminate his or her employment at the end of the period of the agreement, the Senior Employee shall be entitled to severance pay at a rate of 250% in respect of the years of their tenure until the end of 2016, according to the determinant salary for

Note 22 Employee Benefits (continued)

that period. In addition, pursuant to the previous arrangements, when the Senior Employee reaches the date on which the sum of his/her age and his/her period of employment at the Bank exceeds 75 years (at a minimum age of 55 years), the Senior Employee shall be entitled to early retirement, and may choose either enlarged severance compensation at a rate of 250% of his/her monthly salary at the end of 2016, multiplied by the number of years of employment at the Bank up to the end of that year, and, in respect of years of work after 2016, compensation at a rate of 100% based on the last monthly salary, or a monthly pension (at the rate accrued on his/her behalf up to the later of the end of 2016 or the date of appointment as a member of the Board of Management, up to a maximum rate of 70% of the salary to which the pension entitlement applies), to be paid from the date of his/her early retirement until he/she reaches the retirement age specified by law. A member of the Board of Management who has reached the age of 62 may choose to receive only a monthly allowance, or severance pay at a rate of 100%. Different, less beneficial eligibility conditions apply to some members of the Board of Management who are eligible to choose the retirement tracks described above, such as restriction of the number of years of the pension.

Remuneration policy for officers for 2024-2026 (the "New Remuneration Policy") – At the general meeting held on November 8, 2023, the New Remuneration Policy for the officers of the Bank for the years 2024-2026 was approved. Principal changes in relation to the existing remuneration policy: variable remuneration as a larger percentage of total remuneration, as a result of the conversion of the fixed equity compensation component (which was practiced under the previous remuneration policy) into a variable equity compensation component (options), and as a result of the higher maximum ceiling for annual bonuses, despite the larger provisions for study funds; the threshold condition for the bonus program has been updated from attainment of a minimum return on equity to attainment of the minimum capital-adequacy ratios required by the Banking Supervision Department; the return on equity component included in the formula of the annual bonus has been updated such that instead of a predetermined range throughout the period of the policy, a range is established by the Board of Directors in advance for each year; a comparative metric component has been added to the annual bonus; the maximum ceiling for the annual bonus, at maximum performance, has been updated from 5 monthly salaries to up to 6.5 monthly salaries, for members of the Board of Management reporting to the CEO; an option was added for the Board of Directors of the Bank to determine that instead of part of the annual bonus (up to three monthly salaries), vested options for shares of the Bank would be granted, at the same value; execution conditions for deferred variable remuneration – the new policy sets an additional condition for execution in connection with the deferred component, according to which there cannot be a material deviation from capital-adequacy ratios; the execution conditions for the deferred variable component in options shall be the execution conditions established in respect thereof when granted; an option was added for payment for a non-competition period. The New Remuneration Policy was designed in accordance with the directives and restrictions of the applicable laws, including the Remuneration Limit Law, the Companies Law, and Proper Conduct of Banking Business Directive 301A. Pursuant to the New Remuneration Policy, the remuneration of officers of the Bank may be higher than the remuneration grade under Section 2(a) of the Remuneration Limit Law, and the Remuneration Committee

Note 22 Employee Benefits (continued)

and Board of Directors of the Bank shall be permitted to approve such remuneration of an officer reporting to the CEO, without the need for additional approval by the general meeting, provided that the remuneration complies with the ceilings in the remuneration policy, and that the ratio of the "forecast expense" in respect of the remuneration (according to the definitions in the Remuneration Limit Law, i.e., among other matters, excluding pension and severance payments in accordance with the law) to the expense for the lowest remuneration (based on the cost of a full-time position and according to the definitions in the Remuneration Limit Law) does not exceed 35 times.

5. Senior executives other than members of the Board of Management

The 2021 Plan applies to the Bank's senior executives who are not members of the Board of Management, according to principles similar to those specified above with regard to members of the Board of Management. The overall bonus budgets for the relevant groups are determined based on gradations of the rate of return on equity; bonuses are derived from these budgets according to the score assigned to the senior executive, which is partly based on KPIs and partly at the discretion of the relevant supervisor, as detailed below.

With regard to senior executives who are not members of the Board of Management, the following will apply:

a. Annual bonus

It is possible to approve a discretionary bonus in the event of non-fulfillment of the threshold conditions, up to an individual ceiling of 3.0 monthly salaries.

The ceiling on the maximum annual bonus for these executives is 8.0-10.0 monthly salaries (depending on status); for supervision and control functions, the ceiling is 7.2-9.0 monthly salaries.

The plan contains directives regarding the distribution of the bonus budget among the senior executives and the derivation of the personal bonus from the budget.

The new remuneration policy adopted by the Bank for its senior executives who are not members of the Board of Management for 2024-2026 was approved in February 2024, and contains similar principles to those described above with regard to members of the Board of Management.

b. Retirement arrangements

Some of the senior executives who are not members of the Board of Management are entitled to all of the rights accrued up to the end of the arrangements that existed in previous employment agreements with them, insofar as such agreements existed, provided that the forecast expense, as defined in the Remuneration Limit Law, does not exceed the ceiling in the law. Within the previous employment agreements and within the new employment agreements, it is possible for a senior executive to continue to accrue seniority and rights in connection with an early-retirement track, based on the determinant salary in the relevant previous agreement with the senior executive, insofar as such an agreement existed (the early pension payment may be for a limited period only, under certain conditions), provided that retirement is at the age of 55 or older. In the event of retirement in a severance-pay track, the executive may be entitled, in respect of the years of service up to the end of 2016, to severance pay of up to 250% based on the determinant salary according to the relevant previous agreement with the executive, and in respect of the years of service from 2017 forward, to severance pay of 100% based on the executive's last salary. Subject to the discretion of the Remuneration

Note 22 Employee Benefits (continued)

Committee and the Board of Directors of the Bank, based on a recommendation of the CEO, and subject to the directives of the law, severance pay can be approved for a senior executive in the amount of up to 175% of his or her last salary, in respect of all of the years of his or her employment.
The foregoing notwithstanding, senior executives who were subject to a collective agreement on April 12, 2016, and who were transferred from a collective agreement to an executive personal contract after that date, shall be entitled, under certain conditions, to participate in the retirement plans of the Bank, such as they are at that time, or they shall be entitled to severance compensation of 150% in respect of the period during which they were subject to a collective agreement, according to their most recent relevant salary for that period.

D. Additional matters

- Within the Remuneration Policy, directives were established with regard to the arrangements for the return of bonus amounts in the event of revision of the financial statements (pursuant to the Companies Law) and under exceptional circumstances (pursuant to the directives of the Banking Supervision Department). This includes, among other matters, the determination that damage at a rate of 3% of shareholders' equity is considered "exceptional damage," and that, with due attention to the importance accorded by the Bank to compliance with the directives of the law and with the policies and procedures of the Bank, if the criteria for return are met, the amount returned shall be up to the full amount of the bonus (excluding the part deducted and paid as tax to the Tax Authority). It was also clarified that the return arrangements established in the Remuneration Policy shall not detract from any other remedy that may be available to the Bank under the law with respect to an officer, in the event that the Bank incurs damage.
- A framework of liability limits has been established for the acquisition of an officer liability insurance policy, a POSI (public offering of securities insurance) policy, and a run-off officer liability insurance policy (providing coverage for past activity) under circumstances of structural changes.

E. On May 21, 2023, the Board of Directors approved a grant of restricted shares (for three years, beginning January 1, 2023) to the CEO of the Bank, members of the Board of Management, and senior executives of the Bank, as well as to managers who had retired from the Bank, at a total volume of up to approximately 0.03% of the issued capital of the Bank (up to 423,800 shares), within the implementation of the existing remuneration plans and employment contracts, as part of the fixed remuneration component for 2022, which was recognized in the annual financial statements of the Bank for 2022, and in accordance with an outline. The shares were allocated in May 2023. During the second quarter of 2024, the CEO of the Bank, members of the Board of Management, and senior executives will be awarded restricted shares at a volume of approximately 0.03% of the issued capital of the Bank, as part of the remuneration for 2023, which was recognized in these statements. In addition, options with a total fair value of approximately NIS 50 million will be awarded as part of the remuneration plan for 2024-2026 (see above).

Note 22 Employee Benefits (continued)

NIS millions

F. Employee benefit liabilities

	December 31	
	2023	2022
Early retirement and severance pay		
Amount of liability	**7,267**	7,208
Fair value of plan assets	**(3,804)**	(3,651)
Surplus liability over plan assets (included in other liabilities)	**3,463**	3,557
Grant for non-utilization of sick days		
Amount of liability	**337**	326
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**337**	326
25-year service grant		
Amount of liability	**31**	30
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**31**	30
Other benefits at end of employment and post-employment		
Amount of liability	**543**	576
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**543**	576
Total		
Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"*	**4,374**	4,489
* Of which: in respect of benefits for employees overseas	**(21)**	(19)

Note 22 Employee Benefits (continued)

NIS millions

G. Post-retirement benefit plan

1. Commitments and financing status

a. Net change in commitment in respect of forecast benefit*,**

	For the year ended December 31	
	2023	2022
Net commitment in respect of forecast benefit at beginning of period	**4,459**	5,229
Service cost	**133**	154
Interest cost	**152**	86
Deposits by plan participants	**-**	(15)
Actuarial loss (profit)	**(68)**	(588)
Changes in foreign-currency exchange rates	**1**	4
Benefits paid	**(334)**	(411)
Net commitment in respect of forecast benefit at end of period	**4,343**	4,459
Net commitment in respect of cumulative benefit at end of period	**4,066**	4,242

* Includes post-retirement benefits, including a sick-leave grant paid at retirement.
** The amounts presented are net of plan assets. For further details, see Section d below.

b. Amounts recognized in the consolidated balance sheet

	December 31	
	2023	2022
Early retirement and severance pay		
Amounts recognized in the item "other liabilities"	**4,343**	4,459

c. Amounts recognized in accumulated other comprehensive income (loss), before tax effect

	December 31	
	2023	2022
Net actuarial loss	**1,647**	1,841
Closing balance in accumulated other comprehensive income	**1,647**	1,841

d. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets

	December 31	
	2023	2022
Commitment in respect of forecast benefit	**8,147**	8,110
Commitment in respect of cumulative benefit	**7,870**	7,893
Fair value of plan assets	**(3,804)**	(3,651)

Note 22 Employee Benefits (continued)

NIS millions

G. Post-retirement benefit plan (continued)

2. Expense for the period

a. Components of net benefit cost recognized in profit and loss

	For the year ended December 31		
	2023	2022	2021
Service cost	**133**	154	163
Interest cost	**152**	86	70
Subtraction of unrecognized amounts:			
Net actuarial loss (profit)	**127**	154	173
Net total benefit cost	**412**	394	406

b. Changes in plan assets and in benefit commitments recognized in other comprehensive income (loss), before tax effect

	For the year ended December 31		
	2023	2022	2021
Net actuarial loss (profit) for the period	**(68)**	(588)	489
Subtraction of actuarial profit (loss)	**(127)**	(154)	(173)
Changes in foreign-currency exchange rates	**1**	4	(2)
Total recognized in other comprehensive loss (income)	**(194)**	(738)	314
Net total benefit cost	**412**	394	406
Total recognized in net benefit cost for the period and in other comprehensive loss (income)	**218**	(344)	720

Note 22 Employee Benefits (continued)

G. Post-retirement benefit plan (continued)

3. Assumptions*

The actuarial calculation is based, among other matters, on various assumptions regarding the rate of increase in wages, short-term and long-term employee departure rates, the rate of increase in the CPI, and more. These assumptions are based on past experience, studies conducted by the actuary from time to time, and management expectations.

a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit

1. Principal assumptions used to determine the commitment in respect of the benefit

	December 31	
	2023	2022
Capitalization rate	**2.06%**	1.71%
Rate of increase in remuneration[1]	**1.1%-8.2%**	0.5%-7.6%

(1) The rate of increase in remuneration is influenced by several processes leading to an increase in the cost of wages. These processes include promotions and changes in job descriptions, seniority, and rank.

Departure rates vary by age and gender, and reflect a weighted departure rate of approximately 7.6% per annum.

2. Principal assumptions used to measure net benefit cost for the period

	For the three months ended December 31		For the three months ended September 30		For the three months ended June 30		For the three months ended March 31	
	2023	2022	2023	2022	2023	2022	2023	2022
Capitalization rate	**2.05%**	1.67%	1.83%	1.21%	1.81%	0.39%	1.71%	(0.19%)
Rate of increase in remuneration	**1.1%-8.2%**	0.0%-7.6%	0.8%-8.2%	0.0%-7.6%	0.8%-7.9%	0.0%-7.6%	0.0%-7.6%	0.0%-7.6%

b. Effect of a one-percentage-point change on the commitment in respect of the forecast benefit, before tax effect

	December 31			
	2023	2022	**2023**	2022
	Increase of one percentage point		Decrease of one percentage point	
	NIS millions			
Capitalization rate	**(324)**	(344)	**381**	407
Departure rate	**201**	200	**(196)**	(195)
Rate of increase in remuneration	**242**	248	**(208)**	(212)

* The assumptions refer to the stand-alone data of the Bank.

Note 22 Employee Benefits (continued)

NIS millions

G. Post-retirement benefit plan (continued)

4. Plan assets

The Bank's liability for employee benefits is calculated based on an actuarial calculation. Among other factors, this calculation takes into account the probability of early retirement with beneficial terms, in each of the relevant tracks (enlarged severance pay or early retirement); the amounts of the liability at retirement; and the value of amounts funded at that date. In addition, in light of the existing labor agreements at the Bank and the nature of the retirement agreements at the Bank, the Bank's exposure to (positive or negative) changes in the value of amounts funded is limited. The Bank's liability for severance pay to its employees is primarily covered by amounts funded, deposited in severance-pay funds in the employees' names.

Balances of the liability for severance pay and amounts funded for severance pay:

	December 31	
	2023	2022
Liability for severance pay	**3,596**	3,461
Amounts funded for severance pay	**(3,563)**	(3,429)
Net liability	**33**	32

It is emphasized that the net liability exposure of the Bank to changes in the value of amounts funded, weighted by the probability of retirement in a compensation track, is immaterial, in light of the low probability of retirement in an increased compensation track. Amounts funded for severance pay are deposited in severance-pay funds in the employees' names. Approximately 22% of the total balances of amounts funded for severance pay are deposited with the Central Retirement Fund of Histadrut Workers Ltd. (KGM). The remaining amounts are deposited with a large number of severance-pay provident funds, according to employees' choice.

Note 22 Employee Benefits (continued)

NIS millions

H. Cash flows

1. Deposits

	Forecast	Actual deposits	
		For the year ended December 31	
	2024*	**2023**	2022
Deposits	**148**	**148**	164

* Estimated deposits which the Bank expects to pay into pension plans for a defined benefit during 2024.

2. Benefits the Bank expects to pay in the future

Year	
2024	399
2025	373
2026	356
2027	340
2028-2032	1,383
2033 forward	2,570
Total	5,421

I. Efficiency plan

From time to time, the Bank carries out efficiency plans within which, when the desires of both parties align, employees who meet the conditions established in the plan take early retirement with preferred terms. The Bank reflects employee retirement costs, according to management expectations, in its actuarial assumptions in connection with early retirement.

Note 23 Share-Based Payment Transactions

Within the remuneration plan for members of the Board of Management and senior executives up to 2023 (inclusive), each executive is awarded shares, the exercise of which is restricted for a period of 36 months from the end of the year in respect of which they are awarded. The quantity of shares is calculated by dividing the value, which is established according to the rank of the executive, by the average closing price of the Bank's share on the stock exchange in the 30 trading days preceding the day of the publication of the Bank's annual financial statements.

Within this and as part of the fixed remuneration component for 2023 recognized in these financial statements, restricted shares (for three years, beginning January 1, 2024) will be granted to the CEO of the Bank, members of the Board of Management, senior executives, and managers who have retired from the Bank, at a total volume of up to approximately 0.03% of the issued capital of the Bank (approximately 400,000 shares). The shares will be allocated, according to an outline, during the second quarter of 2024.

During the course of 2023, 407,625 such restricted shares were awarded (351,161 in 2022), the value of which at the date of the award thereof totaled approximately NIS 12 million, similar to 2022.

For details regarding the plan to award options to senior executives instead of restricted shares, beginning in 2024, see Note 22.E.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity

A. Share capital

	December 31			
	2023	2022	**2023**	2022
	Registered		Issued and paid-up*	
	Amount in NIS			
Ordinary shares of NIS 1 par value	**4,000,000,000**	4,000,000,000	**1,337,267,218**	1,336,837,006

* Issued capital after the deduction of 109,893 ordinary shares (December 31, 2022: 540,105 ordinary shares) purchased by the Bank, as detailed below. The shares are registered for trading on the Tel Aviv Stock Exchange.

B. Dividends

Dividend distribution by the Bank is subject to tests and limits set forth in the Companies Law and in the directives of the Banking Supervision Department, including Proper Conduct of Banking Business Directive 331. The dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution and the rate thereof are subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account the directives of all laws, any constraints on distribution, and business considerations, including the strategy of the Bank.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

In May 2023, the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 803 million, which constituted approximately 40% of the net profit of the Bank for the first quarter of 2023.
In August 2023, the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 769 million, which constituted approximately 40% of the net profit of the Bank for the second quarter of 2023.
On November 12, 2023, the Banking Supervision Department issued a guideline concerning capital planning and profit distribution policy pursuant to which banking corporations are required to reexamine their dividend distribution policies for the coming period, in view of the war and the increase in uncertainty with regard to its duration and the scope of its effect on the economy. Prior to the publication of the annual financial statements for 2023, the Banking Supervision Department gave notice that this guideline would also apply to the banking system with regard to distributions in respect of the fourth quarter of 2023.
Taking into consideration this guideline of the Banking Supervision Department, in November 2023 the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 334 million, constituting approximately 20% of the net profit of the Bank for the third quarter of 2023, and, at the date of approval of this report, the distribution of dividends in the amount of NIS 352 million, constituting approximately 20% of the net profit of the Bank for the fourth quarter of 2023, to be paid on April 8, 2024. In its decision, the Board of Directors of the Bank examined the rate of the distribution and adjusted it to the guideline of the Banking Supervision Department, and noted the ability of the Bank to potentially declare a higher dividend than the above, in light of the Bank's significant capital surpluses and robust financial position in relation to the various capital requirements.

Date of declaration	Date of payment	Distribution rate*	Dividend per share	Dividend paid in cash
			Agorot	NIS millions
March 7, 2024	April 8, 2024	20%	26.322	352.0
November 16, 2023	December 6, 2023	20%	24.976	334.0
August 14, 2023	September 6, 2023	40%	57.505	769.0
May 22, 2023	June 14, 2023	40%	60.048	803.0
March 8, 2023	March 30, 2023	30%	39.272	525.0
November 22, 2022	December 11, 2022	30%	40.095	536.0
August 14, 2022	September 7, 2022	30%	30.146	403.0

* Percentage of the profits of the quarter preceding the distribution date.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

C. Capital adequacy in consolidated data

	December 31, 2023	December 31, 2022
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier 1 capital	**52,641**	46,745
Tier 1 capital	**52,641**	46,745
Tier 2 capital	**13,338**	14,349
Total overall capital	**65,979**	61,094
2. Weighted balances of risk-adjusted assets		
Credit risk	**403,897**	386,550
Market risks	**4,245**	4,007
Operational risk	**29,710**	25,020
Total weighted balances of risk-adjusted assets	**437,852**	415,577
	%	
3. Ratio of capital to risk components		
Ratio of common equity Tier 1 capital to risk components[(1)]	**12.02%**	11.25%
Ratio of Tier 1 capital to risk components	**12.02%**	11.25%
Ratio of total capital to risk components	**15.07%**	14.70%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department[(2)]	**10.23%**	10.23%
Minimum total capital ratio required by the Banking Supervision Department[(2)]	**13.50%**	13.50%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, and include adjustments in respect of regulatory directives, as follows:
1. A relief in respect of efficiency plans, recorded in equal parts over five years from their inception, until December 31, 2024, estimated at an additional future decrease of approximately 0.02% in the common equity Tier 1 capital ratio as at December 31, 2023 (0.04% as at December 31, 2022).
2. The effect of the implementation of accounting principles concerning current expected credit losses, which gradually decreases until December 31, 2024, estimated at an additional future decrease of approximately 0.04% in the common equity Tier 1 capital ratio as at December 31, 2023 (0.08% as at December 31, 2022).
3. A relief in respect of the implementation of the circular of the Bank of Israel concerning weighting of high-risk loans for the acquisition of land, spread in equal quarterly parts from September 30, 2022, to June 30, 2023; the effect of the relief was 0.04% as at December 31, 2022.

(2) The minimum common equity Tier 1 capital ratio and the minimum total capital ratio are 10.0% and 13.5%, respectively. A capital requirement is added to the common equity Tier 1 capital ratio at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief was granted under the Temporary Order.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

D. Capital components for the calculation of the capital ratio

	December 31, 2023	December 31, 2022
	NIS millions	
Common equity Tier 1 capital		
Total capital	**52,430**	46,503
Differences between total capital and common equity Tier 1 capital	**-**	(1)
Total common equity Tier 1 capital, before supervisory adjustments and deductions	**52,430**	46,502
Supervisory adjustments and deductions:		
Deferred tax assets	**(3)**	(4)
Other supervisory adjustments and deductions – common equity Tier 1 capital*	**(39)**	(168)
Total supervisory adjustments and deductions, before efficiency plan adjustments and before adjustments for estimated credit losses – common equity Tier 1 capital	**(42)**	(172)
Total efficiency plan adjustments – common equity Tier 1 capital**	**70**	141
Total adjustments for estimated credit losses – common equity Tier 1 capital***	**183**	274
Total common equity Tier 1 capital, after supervisory adjustments and deductions	**52,641**	46,745
Total Tier 1 capital, after supervisory adjustments and deductions	**52,641**	46,745
Tier 2 capital		
Tier 2 capital – instruments, before deductions	**8,269**	9,517
Tier 2 capital – allowance for credit losses, before deductions	**5,069**	4,832
Total Tier 2 capital	**13,338**	14,349
Total overall capital	**65,979**	61,094

* The balance as at December 31, 2022, includes a total of NIS 123 million resulting from deduction of the credit line for Bank Pozitif, in accordance with the requirement of the Banking Supervision Department. For further details, see Section I below.

** Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see Section H below), are allocated in equal parts over five years from inception.

*** Adjustments in respect of current expected credit losses, in accordance with the directives of the Banking Supervision Department, decrease gradually up to December 31, 2024.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

E. Effect of adjustments in respect of efficiency plans, current expected credit losses, and high-risk loans for the acquisition of land on the common equity Tier 1 capital ratio

	December 31, 2023	December 31, 2022
	%	
Ratio of capital to risk components		
Ratio of common equity Tier 1 capital to risk components before the effect of the adjustments	**11.96%**	11.09%
Effect of efficiency plan adjustments*	**0.02%**	0.04%
Effect of adjustments for current expected credit losses**	**0.04%**	0.08%
Effect of adjustments in respect of high-risk loans for land acquisition	**0.00%**	0.04%
Ratio of common equity Tier 1 capital to risk components	**12.02%**	11.25%

* Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see Section H below), are allocated in equal parts over five years from inception.

** Adjustments in respect of current expected credit losses, in accordance with the directives of the Banking Supervision Department, decrease gradually up to December 31, 2024.

F. Capital components and risk-adjusted assets subject to volatility

The Bank manages its capital-adequacy ratio with the aim of complying with the minimum capital requirements of the Banking Supervision Department. The capital of the Bank and the volume of risk-adjusted assets are subject to changes, due to the following factors, among others:

- Effects of changes in the interest rate on capital reserves from bonds available for sale.
- Effects of changes in the CPI and in exchange rates on asset balances.
- Actuarial changes resulting from changes in the interest rate for the calculation of the Bank's liabilities, or other actuarial assumptions.

Scale of effect of a decrease in capital and an increase in risk-adjusted assets on the common equity Tier 1 capital ratio as at December 31, 2023

	Effect of a decrease of NIS 100 million in common equity Tier 1 capital	Effect of an increase of NIS 1 billion in total risk-adjusted assets
	%	
Common equity Tier 1 capital ratio	**(0.02%)**	**(0.03%)**

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

G. Capital-adequacy target and capital management and planning

Pursuant to the directives of the Banking Supervision Department, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 10.0% and a minimum total capital ratio of 13.5%. A capital requirement is added to the common equity Tier 1 capital ratio at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief has been granted. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank required by the Banking Supervision Department, on a consolidated basis, as at December 31, 2023, stand at 10.23% and 13.50%, respectively.

The common equity Tier 1 capital target established by the Bank takes into consideration, among other matters, the results of the internal processes of the Bank for determining capital targets, including the results of internal stress tests run by the Bank, and the outcomes of discussions held with the Banking Supervision Department regarding the specific risk attributes of the Bank, within the most recent supervisory review process and the most recent uniform stress tests performed.

In order to comply with the capital-adequacy target and manage capital effectively, capital planning is performed at the Bank based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Bank also routinely monitors actual results as compared to planning, and the gaps between results and planning, and, as necessary, examines the actions needed in order to comply with the established capital targets. As part of the establishment of the internal capital targets of the Bank, as detailed below, the policy of the Bank is to maintain capital adequacy at a level higher than the minimum ratio required by the Banking Supervision Department, and not lower than the level of capital adequacy required to cover the risks as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Bank examines the effect of stress scenarios on capital-adequacy ratios; accordingly, plans are in place for preparedness to return to regulatory capital adequacy in the case of a such a stress event.

Based on the processes of establishment of internal capital targets of the Bank and the results of the internal discussions held with the Banking Supervision Department (as described above), the Board of Directors of the Bank set an internal target for the common equity Tier 1 capital ratio at a rate of no less than 10.5%.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

H. Improving operational efficiency

The circulars of the Banking Supervision Department grant reliefs to banks that apply improvements in efficiency, with respect to personnel and to real estate.

The total volume of the personnel efficiency plan from 2020 to which the reliefs apply is NIS 352 million, net of tax effect.

The effect of the aforesaid plans was recorded to capital, and, for the purposes of calculation of the capital ratio and leverage ratio, deducted from supervisory capital over a period of five years from the date of beginning of implementation of each plan.

The remaining effect of the reliefs in respect of the efficiency plans on the common equity Tier 1 capital ratio is estimated at approximately 0.02% as at December 31, 2023.

I. The subsidiary of the Bank in Turkey

Until September 2023, the Bank Group held 100% of the share capital of Bank Pozitif, in Turkey, which is engaged in corporate banking.

On March 30, 2023, the Bank entered into an agreement for the sale of its holding in Bank Pozitif, for a consideration primarily consisting of repayment of credit granted to Bank Pozitif at the time of completion of the transaction.

On September 13, 2023, the transaction was completed and the holdings of the Bank in Bank Pozitif were transferred to the buyer, in consideration for repayment of the credit granted to Bank Pozitif. The Bank recorded no profit or loss as a result of the completion of the transaction. The effect of the completion of the transaction on the common equity Tier 1 capital ratio of the Bank amounts to an increase of 0.05%.

J. Notes with a loss-absorption mechanism

In April 2023, full early redemption of Subordinated Notes (Series R) of a scope of approximately NIS 1.2 billion was executed.

In December 2023, the Bank executed full early redemption of Subordinated Notes (Series H) of a scope of approximately NIS 0.8 billion.

In December 2023, the Bank issued Subordinated Notes (Series K) at a volume of approximately NIS 0.4 billion. The notes are linked to the consumer price index and bear interest at a fixed rate of 3.71%.

The Subordinated Notes Series K include a mechanism for principal loss absorption through forced conversion (full or partial) into ordinary shares of the Bank under certain circumstances: a constitutive event for principal loss absorption and/or a constitutive event for non-viability, according to Proper Conduct of Banking Business Directive 202. The Subordinated Notes Series K are included in the Tier 2 capital of the Bank, pursuant to Proper Conduct of Banking Business Directive 202; they are for a period of eleven years from the date of issuance thereof; and the Bank has an option for full early redemption, beginning six years from the date of issuance.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

K. Circular updating Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy – Standardized Approach – Credit Risk"

A circular updating Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy – Standardized Approach – Credit Risk," was issued on May 22, 2022. Pursuant to the circular, loans designated for the acquisition of land for the purpose of development or construction at a rate exceeding 80% of the value of the acquired asset (LTV) are added to the list of loans risk weighted at 150%, with the exception of loans for the acquisition of agricultural land with no planning horizon or intention to apply for a change in designation. The effect of the circular was spread over equal quarterly installments, from September 30, 2022, to implementation of the full effect on June 30, 2023. A questions and answers document was released on January 26, 2023, containing clarifications regarding the implementation of the circular.

A circular on the subject, "Adjustments of the Proper Conduct of Banking Business Directives to Cope with the Swords of Iron War (Temporary Order)" was issued on October 31, 2023. The circular includes a relief with regard to Proper Conduct of Banking Business Directive 203, clarifying that an increase in the financing rate of loans intended for the purchase of land for development or construction purposes above a threshold of 80% as a result of interest accrued up to December 31, 2023, due to a grace period granted after October 7, 2023, should not be taken into account in calculating the financing rate.

L. Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

In November 2020, the Banking Supervision Department issued a circular, as a temporary order, updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations must maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system (the Bank is such a banking corporation) must maintain a leverage ratio of no less than 5.5% (instead of 6.0% prior to the relief).

The period of the relief was extended until December 31, 2025; after that date, the requirement is to return to the leverage ratio required prior to the Temporary Order (6.0%) within two quarters.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

	December 31, 2023	December 31, 2022
	NIS millions	
a. Consolidated data		
Tier 1 capital*	**52,641**	46,745
Total exposures*	**760,396**	737,115
	%	
Leverage ratio	**6.92%**	6.34%
Minimum leverage ratio required by the Banking Supervision Department in the period of the Temporary Order	**5.50%**	5.50%
Minimum leverage ratio required by the Banking Supervision Department after the end of the Temporary Order	**6.00%**	6.00%

* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see Section H above). The effect of the relief in respect of the efficiency plans on the leverage ratio as at December 31, 2023, estimated at an additional future decrease of approximately 0.01%, is recorded in equal parts over five years, from their inception date until December 31, 2024. In addition, the data include adjustments in respect of the effect of the implementation of accounting principles concerning current expected credit losses, which are to be gradually reduced until December 31, 2024. The effect of the relief in respect of current expected credit losses as at December 31, 2023, is estimated at an additional future decrease of approximately 0.02%.

	Effect of a decrease of NIS 100 million in Tier 1 capital	Effect of an increase of NIS 1 billion in total exposures
	%	
b. Effects on the leverage ratio as at December 31, 2023		
Leverage ratio	**(0.01%)**	**(0.01%)**

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

M. Liquidity coverage ratio (LCR)

The Bank calculates its stand-alone and consolidated liquidity ratios daily, with a division into NIS and foreign currency, and monitors this ratio at its subsidiaries (which are required to comply with internal liquidity limits adapted to the nature of their activity). These ratios are reported as an average of the daily observations. The number of observations used to calculate the averages in the reported quarter is 64.

	For the three months ended December 31, 2023	For the three months ended December 31, 2022
	%	
a. Consolidated data		
Liquidity coverage ratio	**129%**	122%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%
b. Bank data		
Liquidity coverage ratio	**128%**	121%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%

N. Net stable financing ratio (NSFR)

The Bank applies Proper Conduct of Banking Business Directive 222, "Net Stable Financing Ratio (NSFR)," which adopts the recommendations of the Basel Committee with regard to the net stable financing ratio in the banking system in Israel. Pursuant to the directive, the purpose of the net stable financing ratio is to improve the resilience of the liquidity risk profile of the banking corporations in the long term. The net stable financing ratio consists of two components: available stable financing items (the numerator) and required stable financing items (the denominator). "Available stable financing" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of stable funding is a function of the liquidity characteristics and residual maturities of the various assets held by the corporation, as well as those of its off-balance sheet exposures.

	December 31, 2023	December 31, 2022
	%	
Consolidated data		
Net stable financing ratio	**128%**	130%
Minimum net stable financing ratio required by the Banking Supervision Department	**100%**	100%

Note 25 Contingent Liabilities and Special Commitments

NIS millions

A. Off-balance sheet commitment in respect of activity, based on extent of collection[1] at year end

	December 31	
	2023	2022
Credit balance from deposits based on extent of collection[2]		
Israeli currency unlinked	**8**	10
Israeli currency linked to the CPI	**872**	903
Foreign currency	**-**	145
Total	**880**	1,058

(1) Credit and deposits from deposits the repayment of which to the depositor is contingent on the collection of the credit (or deposits), with a margin or collection fee (instead of a margin).
(2) Standing loans and government deposits granted in respect thereof, in the amount of NIS 297 million (2022: NIS 272 million), were not included in this table.

Flows in respect of collection fees and interest margins in respect of this activity, based on extent of collection[1]

	December 31, 2023							December 31, 2022
	Up to one year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 years	Over 20 years	Total	Total
CPI-linked segment[2]								
Future contractual flows	**3**	**4**	**2**	**4**	**4**	**1**	**18**	20
Expected future cash flows after management estimate of early repayments	**3**	**4**	**2**	**3**	**1**	**-**	**13**	15
Capitalized expected cash flows after management estimate of early repayments[3]	**3**	**4**	**2**	**2**	**1**	**-**	**12**	14

Information on loans granted during the year at mortgage banks:

	December 31	
	2023	2022
Loans from deposits, based on extent of collection	**61**	47
Standing loans	**32**	38

(1) Credit and deposits from deposits the repayment of which to the depositor is contingent on the collection of the credit (or deposits), with a margin or collection fee (instead of a margin).
(2) Including the foreign-currency segment.
(3) The capitalization rate was 1.57% (2022: 1.04%).

Note 25 Contingent Liabilities and Special Commitments (continued)

B. Contingent liabilities and other special commitments

	December 31	
	2023	2022
1. Commitment to purchase securities	**1,364**	1,424
2. Construction and acquisition of buildings and equipment	**774**	996

3. All of the directors and officers serving at the Bank (as well as past directors and officers) have letters of indemnity, pursuant to which the Bank undertakes a commitment to indemnify the officers, among other matters, for monetary indebtedness imposed upon them in connection with specified events (up to a cumulative indemnity amount for all officers of 25% of the shareholders' equity of the Bank, according to its most recent known financial statements before the actual indemnity payment), and to indemnify them for reasonable litigation expenses, including attorneys' fees, in various proceedings (including administrative proceedings), all as specified in the letter of indemnity and in accordance with the directives thereof. In November 2023, the general meeting approved granting updated letters of indemnity to the currently serving directors and officers and to those who may serve from time to time, and updated letters of indemnity were issued to all of the serving directors and officers. The principal amendments to the language of the letter of indemnity include updates of the list of events that, in the opinion of the Board of Directors, are expected in light of the activity of the Bank in practice when the commitment to indemnify is granted, which are listed in the addendum to the letter of indemnity, taking into consideration, among other matters, the changes in legislation and in the activity of the Bank; in addition, definitions and references were expanded in connection with indemnity in respect of administrative enforcement procedures permitted under the law, and other administrative enforcement/investigation procedures, expenses or payments related to which can be indemnified pursuant to the law. The Bank's commitment pursuant to the letters of indemnity will also apply to events that occurred prior to the issuance and renewal of the letters. The letters of indemnity, in the version prior to the aforesaid update, were approved by the general meeting of the Bank in January 2012 and in February 2016. In 2023, the Bank bore litigation costs of past and present officers in various proceedings (attorneys' fees for derivative proceedings, including in connection with the tax affair and the FIFA affair; see Note 25.E below), in negligible amounts. Occasionally, the Bank, with the approval of the Board of Directors, undertakes a commitment to indemnify certain employees who are not officers of the Bank, under special circumstances (such as in connection with their service as directors at an affiliate of the Bank, or in connection with their role at the Bank). Such letters of indemnity are sometimes limited to an indemnity ceiling (separate from the indemnity ceiling of the officers, as noted) of up to 10% of the shareholders' equity of the Bank. Such letters of indemnity are held by several present and past employees and office holders.

Note 25 Contingent Liabilities and Special Commitments (continued)

4. The Bank has undertaken a commitment to indemnify certain subsidiaries, for all of their liabilities, in order to comply with the limits of the Proper Conduct of Banking Business Directives (the ratio of capital to risk components and the limits on indebtedness of a single borrower and of related persons), and in order to receive an exemption from implementation of Proper Conduct of Banking Business Directives 201-211, "Capital Measurement and Adequacy." This indemnification will expire automatically, without the need for any action to be taken by any of the parties, when the Bank ceases to hold any means of control in the company, on its own or through companies under its full ownership.

5. Indemnity commitments in connection with securities issuance at the Bank Group: (1) Hapoalim Hanpakot Ltd. ("Hapoalim Hanpakot"), which was a wholly owned subsidiary, and was merged into the Bank in September 2023, passed resolutions, during the years since 1988, to approve indemnification in respect of prospectuses according to which shelf offering reports were published for the issuance of bonds, subordinated notes, and subordinated capital notes which it issued during these years, for directors and other officers, as well as for the legal advisors of the issuances, in respect of monetary indebtedness to be imposed upon them in their capacity as officers of the company and/or due to the services they provide to the company, as detailed in the prospectuses published in respect of the issuances. The indemnity ceiling for all of the indemnity recipients in aggregate was set at a maximum amount not to exceed 10% of the total amount of the facility established for the issuance pursuant to the prospectuses and shelf offering reports. The Bank was a guarantor for the indemnification of the directors and officers. (2) The Bank (and in the past, also Hapoalim Hanpakot) committed and commits from time to time to grant indemnification to trustees of the debt certificates that it issues, within the relevant trust deeds. (3) Within the shelf offering report for the listing of bonds and subordinated notes published by Hapoalim Hanpakot on June 4, 2018 (the "Shelf Offering Report"), Hapoalim Hanpakot undertook to grant the pricing underwriter, IBI Management and Underwriting Ltd. (formerly "Poalim IBI Management and Underwriting Ltd.") (a related party), indemnification for a monetary indebtedness imposed upon the underwriter in favor of another person pursuant to a verdict due to a misleading detail in the Shelf Offering Report or in the shelf prospectus, and in respect of reasonable litigation expenses. The total indemnity amount shall not exceed the value of the securities listed pursuant to the Shelf Offering Report at the date of listing thereof, linked to the consumer price index. (4) In an international private offering of October 2021 for institutional investors (including Americans) of subordinated notes with a mechanism for principal loss absorption via forced conversion into ordinary shares of the Bank, the Bank undertook to indemnify the underwriters and parties related thereto in respect of damages, claims, and losses, if incurred, with respect to material incorrect particulars included in the documents of the offering, or with respect to the omission of material particulars.

Note 25 Contingent Liabilities and Special Commitments (continued)

6. As a member of the Tel Aviv Stock Exchange Ltd. (the "TASE"), as a member of the TASE Clearing House, and as a member of the MAOF Clearing House of the TASE, the Bank has a commitment to the TASE Clearing House in respect of transactions executed through the clearing house (for itself or for its customers), and a commitment to the MAOF Clearing House in respect of transactions in options and futures cleared through the clearing house. The Bank is also responsible for its share of each of the risk funds of the TASE Clearing House and the Maof Clearing House, which were established to secure the commitments of the members of each of the clearing houses in respect of their activity therein. Each member's share of the aforesaid risk funds is determined in the codes of rules and/or bylaws of the relevant clearing house. The Bank provides collateral for the risk fund of the TASE Clearing House and for the MAOF Clearing House and its risk fund, in amounts that secure its potential liability in respect of its share in each of the aforesaid risk funds, and additional amounts derived from the volume of its activity (on its own behalf and on behalf of its customers). The amounts and composition of this collateral, in cash and bonds, are detailed in Note 26.C below.

7.a. In the fourth quarter of 2018, a transaction was completed for the sale of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg to Bank J. Safra Sarasin AG and Banque Safra Sarasin (Luxembourg) SA (jointly, "Safra Sarasin"). As part of the transaction, indemnity arrangements were agreed upon, pursuant to which, among other matters, Hapoalim Switzerland would indemnify Safra Sarasin for payments and expenses of the purchaser in connection with legal proceedings and investigations of government agencies arising from events preceding the completion of the transaction. The Bank is a guarantor for the commitments of Hapoalim Switzerland towards the purchaser. The commitments are in effect until December 2028.

b. In June 2019, an agreement was signed between Hapoalim Switzerland and Hyposwiss Private Bank Geneva SA for the sale of the remaining customer portfolio at the Switzerland and Luxembourg branches. The sale was performed in several phases. In accordance with the trajectory in the transaction, the Bank paid the buyer for this transfer. As part of the transaction, indemnity arrangements were agreed upon, pursuant to which, among other matters, Hapoalim Switzerland would indemnify Hyposwiss Private Bank Geneva SA, including for payments and expenses of the purchaser in connection with legal proceedings and investigations of government agencies, in the amount of up to CHF 50 million, arising from events preceding the completion of the transaction. The Bank is a guarantor for the commitments of Hapoalim Switzerland towards the purchaser. The commitments are in effect until June 2025.

8. The Bank and its subsidiaries, from time to time, under commonly accepted conditions and circumstances and during the ordinary course of business, grant letters of indemnity, with limited amount and period or unlimited amount and period, including within transactions for the sale of holdings in the companies of the Group, contractual engagements with suppliers, etc.

Note 25 Contingent Liabilities and Special Commitments (continued)

9. On June 21, 2021, the Bank (through a wholly owned subsidiary) entered into a sale agreement with the companies Vitania Ltd. (the "Venturer") and DMR Assets (1995) Ltd. (jointly, the "Sellers") pursuant to which the Bank would acquire a property to be built in Tel Aviv, consisting of a tower with office space (at the level of the building envelope, before finishing work and adaptation to the needs of the Bank) of approximately 60,000 square meters, service spaces, technical spaces, and additional other spaces, as well as more than 1,100 parking spaces, in consideration for approximately NIS 970 million, to be paid according to milestones over the period of the project (the "Headquarters Building"). Within the contract, the Bank had an option to acquire additional spaces in the compound (at the level of the building envelope) of approximately 6,000 square meters, which was exercised in October 2022, in consideration for approximately NIS 80 million. Construction is planned to be completed during the first half of 2026. The Headquarters Building acquired will be used by the Bank and its employees; the Bank plans to concentrate the head-office units of the Bank in this building.

10. The Bank uses land insurance policies that protect the Bank against credit losses in respect of the portfolio of loans granted to customers of the Corporate Banking Division of the Bank that are secured by a lien on land; insurance policies for Sale Law guarantees that protect the Bank against losses in respect of Sale Law guarantees issued in real-estate projects of customers of the Corporate Banking Division financed by the Bank; and insurance policies for housing loans (secured by mortgages) that insure the Bank against losses in respect of these loans granted to customers of the Retail Banking Division. All of the policies allow the reduction of risk-adjusted assets due to the transfer of some of the credit risks in these areas to the insurers. The amounts insured under the aforesaid policies totaled approximately NIS 37.0 billion as at December 31, 2023, compared with a total of approximately NIS 45.7 billion as at December 31, 2022.

11. In August 2022, the Bank, Israel Credit Cards ("CAL"), and Electra Retail Ltd. (a subsidiary of Electra Consumer Products (1970) Ltd.) ("Electra") signed an agreement for a triple collaboration between Electra, CAL, the Bank, and corporations under their control, in connection with a customer club based on non-bank credit cards, to be issued by CAL. The request to issue a credit card will be submitted, among other means, using a dedicated link in the Bit application; clicking this link will refer the customer to issuance of the card by CAL, and information regarding the club cards will be displayed to club customers on the Bit application. Electra (through a corporation under its control) will be responsible for managing the club, and will offer value proposals in purchases at retail chains of the Electra Group. In April 2023, approval was received from the Competition Authority for a merger of the consumer clubs of Bit-CAL and Electra, and an exemption was granted, with conditions, from the obligation to receive the approval of the court for the agreement (including a condition instructing the parties to ensure that the arrangement does not primarily concern the reduction of competition, and that it cannot significantly restrict or impair competition). The exemption was granted for a period of twelve years, but the Competition Commissioner can end the period of its validity at such time as the Commissioner determines. Further to the discussions with the Competition Authority and the conditions established in the exemption, including with respect to credit, the parties negotiated to update some of the commercial accords in the agreement. In August 2023, the additional contingent terms were fulfilled, and the transaction was completed; updates of some of the commercial accords were added to the agreement, including with regard to payments from CAL and account settlement between the parties in respect of expenses. The activity of the club launched during the third quarter of 2023 (the Carrefour Club).

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Contractual engagements with credit-card companies

On November 22, 2022, the Bank signed a new agreement with Isracard, for a period of eight years, beginning April 1, 2022, for joint issuance and issuance operation of bank credit cards (MasterCard and Visa), debit cards, and chargeable cards for customers of the Bank. The agreement includes, among other matters, a mechanism for account settlement between the parties in connection with the turnover of the aforesaid cards (which depends, among other matters, on the volume of the turnover), monetary arrangements pertaining to the operation and issuance of the cards, and the rights and obligations of the parties, as well as agreements in the area of operations and the interface between the parties. On March 19, 2023, the Bank and Premium Express (a wholly owned subsidiary of Isracard) signed a detailed agreement regarding the issuance and issuance operation of American Express cards. The agreement is in effect as of April 1, 2022, for a period of eight years. The Bank also has contractual engagements with the operators CAL (Israel Credit Cards) and MAX, and issues its cards through the three operators active in Israel (CAL, MAX, and the Isracard Group (which also includes Premium Express, as noted)).

Pursuant to the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), beginning in February 2019, the Bank is obligated to operate the issuance of new credit cards issued to customers of the Bank through at least two issuance operators. The share of any issuance operator shall not exceed 52% of the new cards issued by the Bank. This legal limit was scheduled to expire in March 2023, but has been extended in regulations until January 31, 2028.

D. Legal proceedings

The Bank Group (the Bank and its consolidated subsidiaries) is a party to legal proceedings, including petitions to certify class actions, taken against it by its customers, former customers, and various third parties. The causes of the claims against the Bank Group are varied and wide-ranging.

In the opinion of the Bank's Board of Management, based, among other matters, on legal opinions with regard to the likely outcome of pending claims, including petitions to certify class actions, the financial statements include sufficient provisions, in accordance with generally accepted accounting principles, to cover possible damages resulting from all claims, where such provisions are necessary.

The additional exposure in respect of claims filed against the Bank on various matters that have a "reasonably possible" probability of materialization (and therefore no provision exists in respect thereof) amounts to approximately NIS 1,038 million as at December 31, 2023.

a. Set out below are details of the material claims, including petitions to certify claims as class actions, where, in the opinion of the Bank's Board of Management, based, among other matters, on legal opinions with regard to the likely outcome of these claims, the financial statements include sufficient provisions, where provision is necessary, in accordance with generally accepted accounting principles, in respect of all probable losses arising from these claims.

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

1. Two claims are in progress against the Bank Group in which the substantial part of the amounts claimed are overlapping. The first is a claim from August 2010 filed against Hapoalim Switzerland (and other banks) by the liquidator of Fairfield Sentry Ltd. (the "Fairfield Fund"), which had invested most of its assets at the time in funds of Madoff (Bernard L Madoff Investment Services LLC). The claim demands that the defendants return redemptions withdrawn from the Fairfield Fund before it entered insolvency. The amount of the claim against Hapoalim Switzerland currently stands at a total of approximately USD 31 million. The claim is in progress at the US Bankruptcy Court of the Southern District of New York, and appeals are pending at appellate courts. The other claim was filed against the Bank and Hapoalim Switzerland in March 2012 by the liquidator of Bernard L Madoff Investment Services LLC, in the amount of approximately USD 22 million, also demanding the return of redemptions from before its insolvency. The claim is in progress at the US Bankruptcy Court of the Southern District of New York. In September 2022, a motion for dismissal of this claim, filed by the Bank and Hapoalim Switzerland, was denied.

2. A claim and a petition to certify the claim as a class action against the Bank were filed with the District Court of Tel Aviv on June 24, 2015. The amount of the claim noted in the claim statement is approximately NIS 500 million. The petition concerns the allegation that customers of the Bank who were, or who are, entitled to be included in the category of a "small business," as defined in the Banking Rules (Service to Customers) (Fees), 2008, paid fees that were not in accordance with the fee list applicable to small businesses, and the Bank did not notify these customers that the possibility of classifying them as small businesses existed. A mediation proceeding between the parties was unsuccessful. A motion to consolidate the hearing with similar petitions filed against other banks was approved. On August 22, 2022, a regulatory position was received in this case pursuant to which the Bank must disclose to customers, on its own initiative, their eligibility for the application of the small business fee list. The parties have notified the court that they have agreed to enter a mediation proceeding.

3. A claim statement and a petition to certify the claim as a class action against the Bank and two additional banks were filed with the District Court of Tel Aviv on May 17, 2020 (the "Certification Petition"). The petition alleges, among other matters, that the Bank transfers personal information of its customers, in violation of privacy and banking secrecy, through its use of online advertising tools (such as Google and Facebook), and through online services that process information in the cloud, which are used by the Bank to provide services to its customers. The arguments against the Bank refer to the digital platforms: the website of the Bank, the Account Management application, and the Bit application. It is also alleged that the privacy protection policy and the terms of use published on these platforms include discriminatory provisions in a uniform contract. The petition does not state the amount of damage to the class. The amount of the personal claim has been set at a total of NIS 1,000. On September 27, 2023, the court ordered the Supervisor of Banks to provide his position regarding the disputed issues. On January 22, 2024, the Banking Supervision Department stated that it did not deem it appropriate to present a position at this stage, as, to its understanding, the issues in the proceeding are complex and raise questions that exceed the bounds of banking law.

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

4. A claim statement and a petition to certify the claim as a class action, filed with the Central District Court against the Bank, concerning inactive deposits, as defined in the Banking Ordinance, were received on May 21, 2020. It is alleged in the petition, among other matters, that the Bank violated its duty to find and report to the owners of the accounts with regard to these accounts, collected fees, and obtained unjust enrichment. Among other matters, it is argued that the Bank must pay the amounts of the deposits, according to the real value thereof, with the addition of the fees that have been collected. The claim does not state the amount of damage to the class. The case was transferred to a mediation proceeding, which is still ongoing.

5. A claim statement and a petition to certify a class action, filed with the District Court of Jerusalem against seven banks, including the Bank, were received on December 9, 2020. The petition alleges, among other matters, violation by the Bank of the provisions of the Credit Data Law, 2016, and the regulations enacted thereunder, due to the submission of reports to the credit data repository regarding the existence of legal proceedings against customers, in contravention of the law and in a manner that damaged the customers' ability to receive credit, their privacy, and their reputation. The petition does not state the amount of damage to the class. Following a mediation proceeding, the parties filed a motion with the court to approve a settlement, which was approved on March 9, 2023, in a judgment of the court. Pursuant to the settlement agreement, the Bank will pay (as will each of the other banks) the sum of NIS 100,000 to the petitioner and the representative thereof, and the method of reporting by the Bank to the credit data repository will be amended. The settlement agreement will constitute res judicata for class-action proceedings pertaining to the issues discussed within the proceeding.

6. In July 2022, it came to the attention of the Bank that a claim statement and a petition to certify a class action had been filed with the District Court of Tel Aviv Jaffa against Isracard Ltd. ("Isracard") and officers thereof, and against the Bank. It is alleged against the Bank in the petition that the Bank breached the duty of disclosure within the prospectus for the sale offer of the shares of Isracard (of 2019) in connection with the credit-card issuance and issuance operation agreement between Isracard and the Bank, with regard to the description of the agreement period and the possibility that modifications would be made thereto. The petitioner also has contentions against reports of Isracard subsequent to the prospectus, which are not addressed to the Bank. It is alleged that the damage to the class, based on an expert opinion, amounts to approximately NIS 396 million. In accordance with the ruling of the court, the petitioner filed an amended petition to certify the class action, in October 2022, in which, among other matters, contentions were added regarding the leakage of information concerning negotiations between Isracard and the Bank, prior to the publication of a report on this matter; the current CEO of Isracard was added as a respondent in the petition; and the amount of the alleged damage to the class was amended to approximately NIS 583 million.

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

7. A claim statement and a petition to certify a class action filed with the District Court of Jerusalem by the Israel Consumer Council against the Bank, nine additional banks, and two private companies that operate non-bank automated devices for cash withdrawal, themselves and/or through a franchise, were received on February 9, 2022. The petition alleges, among other matters, that cash withdrawal at non-bank/private automated devices imposes a double charge on the customers – the payment made by the customer to the private company, and the payment of the fee for a transaction through a direct channel, without lawful disclosure. The amount of the damage to the class has been estimated at a total of NIS 458 million against all of the defendants. In February and June 2023, the positions of the Supervisor of Banks were submitted, according to which an issuer bank is permitted to charge a direct-channel fee for withdrawal at a non-bank automated device, even if the private device does not present the customer with the exact rate of the fee to be collected by the bank.

b. In addition, there are material claims pending against the Bank Group (including petitions to certify class actions) the probable outcome of which cannot be assessed at this stage, in the opinion of the Bank's Board of Management, based on legal opinions, as follows:

1. A claim and a petition to certify the claim as a class action against the Bank were filed with the Tel Aviv District Court on June 4, 2023. The petition alleges that the Bank does not pay interest on positive balances in current accounts at the Bank, either by giving interest directly or by operating automatic deposits/mechanisms that allow "automatic" transfers of positive balances in current accounts to daily deposits that accrue interest. It is also alleged that the Bank does not disclose the existence of such deposits to its customers, and consequently the customers do not receive interest on positive balances in their current accounts, and that the Bank thereby violates various provisions of the law and disclosure duties, and obtains unjust enrichment. The remedy requested in the petition is compensation estimated, at this stage, by the petitioner at a total of more than NIS 1 billion, and mandatory injunctions. To the best of the Bank's knowledge, a petition to certify a claim as a class action on a similar matter has been filed against other banks.

2. A claim statement and a petition to certify a class action against the Bank filed with the Center-Lod District Court were received on June 12, 2023. The petition alleges that the Bank lowers the interest rate (or does not raise it sufficiently) after depositing or when renewing deposits of various types (including deposits linked to the Prime rate or other external benchmarks), that the Bank does not notify its customers accordingly as required, and that the Bank thereby breaches an agreement and unlawfully increases its profits. The requested remedy is compensation estimated by the petitioner at a total of more than NIS 300 million, and mandatory injunctions.

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

3. A claim statement and a petition to certify a class action against the Bank and four additional banks, filed with the Tel Aviv District Court, were received on June 25, 2023. The petition alleges, among other matters, that the banks adjust the debited interest rate on credit linked to the Prime rate by the full rate of the increase in the Bank of Israel interest rate, without discretion and improperly, among other matters because the banks do not commensurately raise the credited interest rate that they pay for the resources they use to finance the credit (deposits, etc.). The overall monetary remedy, against all of the banks, at the time of filing of the claim, is estimated by the petitioner at NIS 5.8 billion; against the Bank, the estimate by the petitioner is a total of NIS 1.5 billion.

4. A claim statement and a petition to certify a class action against the Bank and four additional banks, filed with the Center District Court, were received on July 23, 2023. The petition alleges, among other matters, that the banks fail to disclose to customers who make a deposit via internet, an application, or other remote means that the interest rate offered to them through these means is lower than the interest rate that they could have received had they approached the bank through other means, and that they are thereby denied the ability to make an informed decision and to act to improve their situation. The monetary remedy requested is compensation estimated by the claimant at a total of approximately NIS 984 million (against all of the banks), and the claimant alleges that this sum grows by approximately NIS 104 million every month.

5. A claim and a petition to certify the claim as a class action against the Bank and three other banks were filed with the Tel Aviv Jaffa District Court in August 2023. It is alleged in the petition, among other matters, that the Bank creates a misleading representation for borrowers when granting a housing loan and during the lifetime of the loan, according to which the purchase of a building insurance policy, the existence thereof, and a pledge of such policy in favor of the Bank constitute a condition for receiving a loan secured by a mortgage, and that, in practice, the Bank requires such a policy to be purchased and maintained even when there is no obligation to purchase building insurance, in contradiction of the directives of the Supervisor of Banks. Among other matters, a remedy is requested of compensation for the cost of the building insurance policies issued over the course of the last seven years and pledged to the Bank.

6. A claim statement and a petition to certify a class action, filed with the Haifa District Court against the Bank, were received on February 1, 2024. It is alleged in the petition, among other matters, that the Bank charges its customers conversion differences in respect of the execution of foreign-currency conversion transactions, without the required formalization and disclosure, among other matters, in the fee list of the Bank and in the agreement with the customer. The requested remedies include reimbursement and compensation in respect of conversion differences collected in the last seven years. The petition does not state the amount of damage to the class.

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

c. Other proceedings and petitions to certify derivative claims

Most of the sections of this chapter, below, describe proceedings that include petitions to certify derivative claims on behalf of the Bank against past and/or present officers of the Bank. It is noted, with regard to these proceedings, that even in the event that any of the petitions is accepted, the Bank is, in general, expected to be a potential beneficiary of the proceeding rather than a potential indebted party therein.

1. On March 30, 2023, a motion was filed with the court for disclosure of documents, pursuant to Section 198A of the Companies Law, 1999. The motion concerns the argument that the remuneration awarded to the Chairman of the Board of Directors of the Bank, the CEO of the Bank, and other officers at the Bank and at Hapoalim Switzerland, in the past and present, exceeds the ceiling established in the Financial Corporations Officer Remuneration Law (Special Approval and Non-Deduction of Expenses for Tax Purposes due to Exceptional Remuneration), 2016. The principal contention is that the Bank does not include components of wage tax or value-added tax paid in respect of the remuneration in its calculation of the pay ceiling. The petitioner also has contentions regarding failure to receive the required approvals at the general meeting for the purpose of the remuneration of the officers, and regarding deficiencies in the disclosure regarding the remuneration provided. Similar motions were also filed against two additional banks, and the hearing of the motions was consolidated. Further to the comments of the court, the parties are examining ways of rendering the proceeding unnecessary, and a notification on this matter will be submitted by March 13, 2024.

2. On March 1, 2015, a petition to certify a derivative claim against the Bank and against officers who served between 2000 and 2015, as well as against the external auditors of the Bank, was filed with the District Court of Tel Aviv, in which it was argued that the respondents must compensate the Bank for damages they caused it through their acts and omissions (estimated at that time in the amount of USD 228 million), which the Bank would be required to pay to United States enforcement agencies. It was further argued that the Bank failed to act and set aside appropriate accounting provisions in its financial statements, as required according to generally accepted accounting principles and according to the directives of the law, in respect of the anticipated payment. As part of the derivative claim, the petitioner filed a motion for disclosure and perusal of documents related to the investigation, including investigation materials and correspondence between the Bank and law-enforcement authorities in the United States. On March 1, 2015, an additional motion was filed for the disclosure of documents prior to filing a derivative claim, in connection with the investigation by United States authorities of the activity of Bank Hapoalim Switzerland regarding American customers. The hearing of the motions has been consolidated, at the request of the parties and in accordance with the ruling of the court. With the consent of the parties, the hearing in this proceeding was stayed until completion of the investigation of the United States authorities. Subsequently, following a procedural arrangement approved by the court, the proceedings were stayed to allow the independent committee to submit its recommendations to the Board of Directors of the Bank, and an amended motion was filed estimating the amount of the damage which the petitioner alleges was caused to the Bank at approximately NIS 4.5 billion at least. The assessment of the damage is based on amounts paid by the Bank

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

to the United States authorities, and on legal and other expenses in the course of the tax investigation, and also refers to additional components that have not been quantified. Causes of the claim were also added to the Amended Petition, including with regard to the alleged lack of cooperation of the Bank with the United States authorities during the period of the investigation. On January 27, 2022, notification was submitted to the court stating that the work of the independent committee had been completed, and that at the conclusion of its work the committee made a recommendation to the Bank to exhaust its rights on this matter through a settlement with the officers' liability insurers of the Bank, in accordance with the proposal of the insurers, in which a total of USD 135 million would be paid to the Bank. On May 1, 2022, the Bank and the parties relevant to the legal proceeding filed a motion with the court in Tel Aviv Jaffa to approve a settlement within which the Bank would be paid a total of USD 135 million (with compensation for the petitioner and reimbursement of expenses and fees for the representative of the petitioner to be paid out of that amount) by the officers' liability insurers of the Bank. The settlement would lead to mutual extinguishment of contentions, demands, and claims in connection with the tax affair, establish res judicata, and lead to full discharge of the liability of the insurers in connection with the existing and potential proceedings, claims, and contentions related to the causes of the claim and the tax affair. In October 2022, a shareholder of the Bank filed an objection to the settlement (the "Objector" and the "Objection," respectively). The Attorney General submitted her position regarding the settlement, according to which she does not object to the settlement, but indicates a number of essential aspects where her position is that the court should address such aspects prior to approving the settlement, including examination of the conclusion of the independent committee pursuant to which the insurers would pay the full amount of the settlement, without obligating the officers to bear part of the payment. After clarifications and responses were received from the parties, a hearing was held on July 2, 2023, in which the representative of the officers gave notice that six officers were willing to return bonuses to the Bank in a total amount of NIS 2.25 million; this is acceptable to the Bank and to the petitioner. On July 9, 2023, the Objector gave notice of objection to the amount proposed by the officers, which he argues is too low. After receiving additional clarifications from the parties, on September 26, 2023, the court ruled that if the officers returned a sum of NIS 3.56 million to the Bank, it would be possible to approve the settlement. On October 12, 2023, the former officers gave notice that they accepted the offer of the court regarding the amount that they would repay. On October 24, 2023, the Objector gave notice that he maintained his objection due to the level of the amount to be repaid. On November 1, 2023, the court approved and granted the validity of a judgment to an updated settlement, pursuant to which the Bank would be paid a total of USD 135 million by the insurers (of which, compensation, fees, and reimbursement of expenses to be paid to the petitioner, in a total amount of approximately USD 6 million), and six former officers would repay a total of NIS 3.56 million to the Bank. The settlement would lead to mutual extinguishment of contentions, demands, and claims in connection with the tax affair, establish res judicata, and lead to full discharge of the liability of the insurers in connection with the existing and potential proceedings, claims, and contentions related to the causes of the claim and the tax affair. In December 2023, the insurers transferred a total of USD 135 million to the Bank,

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

to be used in the future to cover their liability under the settlement agreement, subject to the approval of the settlement agreement at the conclusion of the legal proceedings underway on this matter. If, at the conclusion of the legal proceedings, the settlement agreement is not approved, the Bank will return the aforesaid transferred amount.

On December 18, 2023, the Objector filed an appeal with the Supreme Court of the judgment in which the settlement was approved. The Objector contends that the ruling of the District Court of Tel Aviv Jaffa does not meet the duty to give reasons, which is particularly important given that the Objector insists that the amount to be returned to the Bank by the former officers (NIS 3.56 million, as noted) is too low. According to the ruling of the Supreme Court of January 30, 2024, the respondents must submit a written reply to the appeal. A hearing of the appeal has been scheduled for November 18, 2024. Income in respect of the settlement has not yet been recognized in the financial statements.

3. On July 13, 2017, a motion was filed with the District Court of Tel Aviv for disclosure and perusal of documents in advance of filing a petition for a derivative claim pursuant to Section 198A of the Companies Law, 1999, in connection with the investigation in progress in the United States concerning the suspicion that the Bank Group served as a channel for holding and transferring bribes paid to senior FIFA officials (the "Disclosure Motion"). The reply of the Bank to the motion has not yet been submitted. On September 17, 2019, the court granted validity to a procedural arrangement between the parties, pursuant to which the hearing would be stayed until completion of the investigation. Accordingly, beginning on that date, the court stayed the proceedings from time to time. On May 3, 2020, the parties gave notice (in separate notifications) that a non-prosecution agreement (NPA) had been reached between the respondents and the United States Department of Justice. On January 27, 2022, notification was submitted to the court stating that the work of the independent committee had recently been completed, and that at the conclusion of its work the committee made a recommendation to the Bank to exhaust its rights on the matter referenced in this case through a settlement with the officers' liability insurers of the Bank, in accordance with the proposal of the insurers, in which a total of USD 5 million would be paid to the Bank. On May 1, 2022, the Bank and the parties relevant to the legal proceeding filed a motion with the court to approve a settlement within which the Bank would be paid a total of USD 5 million (with fees for the representatives of the petitioner to be paid out of that amount) by the officers' liability insurers of the Bank. The settlement would lead to mutual extinguishment of contentions, demands, and claims in connection with the FIFA affair, establish res judicata, and lead to full discharge of the liability of the insurers in connection with the existing and potential proceedings, claims, and contentions related to the causes of the claim and the FIFA affair. The settlement requires the approval of the court; there is no certainty that such approval will be granted. On May 2, 2022, the court instructed the Attorney General to submit her position regarding the motion for the settlement. On November 20, 2022, a court ruling was handed down pursuant to which, as the designated date had passed and the Attorney General had chosen not to respond, it was assumed that the Attorney General did not intend to respond, with all ensuing implications. On November 23, 2022, the petitioner submitted a

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

motion for judgment to the court. On July 5, 2023, the petitioner filed an additional motion for judgment, which also states, among other matters, that there is a dispute between the petitioner and the petitioner's representatives. On August 27, 2023, the court granted the validity of a ruling to the procedural arrangement between the petitioner and the petitioner's representatives regarding the referral of the disputes between them to mediation. On December 10, 2023, the petitioner and the petitioner's representatives gave notice that the mediation proceeding had concluded unsuccessfully. In accordance with the ruling of the court, on January 21, 2024, the petitioner gave notice that he objected to the proposed settlement in its present form. On January 28, 2024, the Bank and the petitioner's representatives each separately submitted their comments regarding the notification of the petitioner, and asked the court to reject the petitioner's notification and approve the settlement.

4. On May 21, 2020, a motion was filed with the District Court of Tel Aviv Jaffa for disclosure of documents prior to a derivative claim pursuant to Section 198A of the Companies Law. The motion concerns contentions regarding damages caused to the Bank due to taxation aspects pertaining to payments paid by the Bank to government authorities in the matter of the United States tax investigation. It is argued in the motion that due to various tax aspects, the actual damage caused to the Bank is greater than the amount of the payments to the United States authorities. In view of these contentions, the petitioner is seeking to receive various documents in order to consider whether to file a petition to certify a derivative claim on behalf of the Bank against those responsible for this alleged damage. The petitioner estimates the amount of damage caused to the Bank due to the taxation aspects at approximately USD 448 million. On June 17, 2020, the court approved a procedural arrangement between the parties pursuant to which the court would stay the proceedings in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. On July 2, 2020, the petitioner in the petition to certify a derivative claim described in Section c.2 above filed a motion to expunge this petition (the "Expungement Motion"). A hearing of the Expungement Motion was held on June 13, 2021, and the ruling of the court was given on August 5, 2021, assenting to the motion to expunge and ordering expungement of the proceeding (the "Expungement Ruling"). On January 6, 2022, the petitioner filed notification of an appeal of the Expungement Ruling to the Supreme Court. On November 29, 2022, the Supreme Court denied a motion filed by the petitioner to stay the proceedings, and alternatively to grant an extension for filing an objection to the settlement described in Section c.2 above. The hearing of the appeal was postponed to May 23, 2024. On October 26, 2023, the appellant filed a motion to add officers and employees of the Bank as well as the external auditing firms of the Bank as parties to the appeal. On December 13, 2023, the Bank submitted its reply to the addition motion, arguing that it should be denied.

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

5. A petition to certify a derivative claim against the Bank and past and present officers of the Bank (the "Respondents") was filed with the Economic Department of the District Court of Tel Aviv on September 6, 2017. The certification petition was filed after the petitioner's motion for disclosure of documents was denied, within a motion for permission to appeal filed on behalf of the Bank with the Supreme Court, and concerns allegations of failures of the Bank in granting credit to companies in the group of Mr. Eliezer Fishman (the "Fishman Group"), in not closing a "position" of the Fishman Group in connection with currency transactions (the "Turkish Lira"), and in the Bank's refraining from applying collection proceedings against the Fishman Group. It is argued in the petition that due to the acts and omissions of the Respondents, the Bank incurred damage estimated at more than NIS 1.5 billion. On November 14, 2021, the petitioner, the respondents, and the Bank (following approval by the Board of Directors of the Bank) filed a motion with the District Court of Tel Aviv Jaffa to approve a settlement agreement in connection with the aforesaid proceeding. According to the main points of the settlement agreement, for the full, final, and absolute extinguishment and waiver, by the petitioner, the Bank, and any party on behalf thereof towards each of the respondents and the officers of the Bank, of the causes of the claim and arguments related (directly or indirectly) to credit to the Fishman Group, the insurance company that insures the respondents shall pay the Bank a total of NIS 15 million, of which amount compensation for the petitioner and the fees of the representative of the petitioner shall be paid, and the claim shall be dismissed, such that res judicata shall be established. The settlement does not constitute admission by the respondents or the Bank of any of the contentions in the certification petition. On January 8, 2023, the court approved the settlement agreement that had been submitted for its approval (pursuant to which the Bank would receive a total of NIS 15 million from the insurance company, out of which compensation for the petitioner and the fees of the representatives of the petitioner would be paid), except with regard to the amount of the compensation for the petitioner and the fees of the petitioner's representatives, as agreed upon in the settlement agreement, subject to the exemption provisions in the settlement agreement not applying to causes not included in the certification petition. The Supreme Court proceeding was expunged with the consent of the parties on March 20, 2023. The proceeding was thereby concluded.

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

6. On June 15, 2020, a motion was filed with the District Court of Tel Aviv Jaffa for disclosure and perusal of documents pursuant to Section 198A of the Companies Law. It is argued in the motion, among other matters, that officers of the Bank granted credit to companies in the Yedioth Ahronoth Group and to the controlling shareholder of the group, Mr. Arnon (Noni) Mozes, in the amount of approximately NIS 1 billion, for the purpose of trading in high-risk speculative financial instruments, disregarding the best interests of the Bank. In the motion, the petitioner seeks disclosure of various documents in connection with this matter. A court hearing was held on June 27, 2021, following which the court granted the petitioner permission to file a motion for disclosure of documents amended to also include a demand for disclosure of documents pertaining to the sale of shares of Yedioth Ahronoth which were placed under lien in favor of the Bank by Mr. Fishman, provided that it does not include a cause pertaining to this matter. The petitioner filed an amended motion for disclosure of documents (the "Amended Motion"). On September 29, 2022, the court ruled on the pending motion, and, among other matters, ordered the Bank to submit its reply to the Amended Motion for disclosure of documents. On December 7, 2022, the petitioner filed a motion for permission to appeal to the Supreme Court regarding the court ruling. The motion for permission to appeal was denied by the Supreme Court on July 3, 2023. The Bank must submit its reply to the amended disclosure motion by April 8, 2024.

7. On September 6, 2022, a motion for disclosure and perusal of documents pursuant to Section 198A of the Companies Law was filed in connection with a transaction for the sale of shares of Yedioth Ahronoth, which were under lien to the Bank to secure the repayment of debts of companies in the Fishman Group to Mr. Arnon (Noni) Mozes (the "Disclosure Motion"). The court ordered the Bank to submit its reply to the motion for disclosure of documents within 45 days of the court ruling on the Bank's pending motion (the "Pending Motion"). A hearing of the disclosure motion was held on January 30, 2023, during which the court stated that elucidation of the Pending Motion would be deferred until the resolution of the motion for permission to appeal filed on this matter in the proceeding described in Section c.6 above. Following the ruling of July 3, 2023, of the Supreme Court in the proceeding described in Section c.6 above, on July 20, 2023, the petitioner filed a current petition for disclosure of documents (enclosing a current file of annexes), and it was determined that the Bank would submit its reply to the disclosure motion by April 8, 2024.

Note 25 Contingent Liabilities and Special Commitments (continued)

D. Legal proceedings (continued)

8. In August 2021, the District Court of Tel Aviv Jaffa gave a judgment on two class actions against Meitav Dash Provident Funds and Pension Ltd. ("Meitav Dash") in connection with the provident fund Tagmulim (the "Provident Fund"), which Meitav Dash acquired from the Bank in 2007 in consideration for approximately NIS 31 million (the "Sale Agreement"). Pursuant to the judgment, among other matters, Meitav Dash is prohibited from collecting management fees from two classes of members of the Provident Fund; it was further ruled that Meitav Dash must reimburse the classes of members, in a total amount of approximately NIS 289 million, with the addition of linkage and interest, and with the addition of management fees collected between 2016 and the date of the judgment (in a supplementary judgment of January 2022, it was determined that the total amount is approximately NIS 400 million). The Bank is not a party to the aforesaid proceeding; however, Meitav Dash contacted the Bank in connection with the proceeding, and, near the date of the judgment, gave notice that if the arguments of the claimants in the class actions were accepted, it would be necessary to conduct an arbitration proceeding between Meitav Dash and the Bank, and that it would act to exhaust its rights against the Bank, as, it argues, among other matters, information and documents exist that were not provided to it by the Bank within the deal in which it acquired the Provident Fund from the Bank, the Bank breached the Sale Agreement with it and made false representations to it, and it has the right to be indemnified by the Bank for its damages. The Bank replied to Meitav Dash that the Bank rejects its arguments and its right to indemnification from the Bank. On November 14, 2021, Meitav Dash filed an appeal of the judgment with the Supreme Court. On February 10, 2022, the claimants filed an appeal of the supplementary judgment, and on February 27, 2022, Meitav Dash filed an additional appeal. On January 9, 2023, the Supreme Court heard the appeals filed by the parties, and, as recommended by the court, the parties consented to seek a mediation proceeding. On May 2, 2023, Meitav Dash reported that it had entered into a resolution that has been submitted to the Supreme Court, the main points are which that Meitav Dash would reimburse the members defined in the court ruling as members of the group of claimants for a total amount of NIS 120 million, with the addition of compensation and fees in a total amount of NIS 18 million, with regard to which a decision has not yet been made on whether it will be paid in addition to or out of the reimbursement amount. In addition, the resolution between the parties to the class actions states that Meitav Dash will be permitted to collect management fees according to its terms. The resolution between the parties to the class action establishes final, absolute, irrevocable settlement of any argument and/or demand in all matters directly and/or indirectly related to the causes of the claim. The validity of the resolution is contingent upon approval by the court. On July 3, 2023, the Supreme Court ordered the proceeding for the approval of the resolution to be conducted at the District Court. On December 22, 2023, the Attorney General submitted her position regarding the resolution. The Attorney General objected to some of the components of the resolution, mainly with regard to the reimbursement mechanism and the amounts of the fees and compensation; however, she did not object to the amount of the resolution, and left it and the issue of future regulation to the discretion of the court. The parties each separately submitted their comments on the position of the Attorney General, and, subsequent to the comments of the Attorney General, submitted an amended version of the resolution, which the court has been asked to approve.

Note 25 Contingent Liabilities and Special Commitments (continued)

E. In April 2020, resolutions with the United States authorities in connection with the tax investigation and the FIFA affair were announced and entered into force:

a. A Deferred Prosecution Agreement ("DPA") between the Bank and the DOJ, with respect to the Bank's activity and dealings with its US customers during the period that was the subject of the investigation (2002-2014) – inasmuch as pertains to Bank Hapoalim in Israel, Poalim Trust Services Ltd., and Bank Hapoalim branches and subsidiaries outside of Israel (excluding Hapoalim Switzerland), on May 1, 2023, with three years having elapsed from the date of the DPA and in accordance with the provisions thereof, the United States federal court (in New York) approved, by order, the dismissal of the prosecution and the criminal proceeding against the Bank. The aforesaid order was granted at the request of the DOJ, which noted in its motion that to its understanding the Bank had fully met its obligations under the DPA. The aforesaid order concludes the criminal proceedings taken by the DOJ against the Bank.

b. A Plea Agreement between the DOJ and Hapoalim Switzerland Ltd. (formerly Bank Hapoalim (Switzerland) Ltd.) ("Hapoalim Switzerland") that relates to the activity of Hapoalim Switzerland and the dealings of Hapoalim Switzerland with its US customers during the period that was the subject of the investigation (2002-2014).

c. A Consent Order issued by the New York State Department of Financial Services (the "NYDFS") and a Cease and Desist Order issued by the Board of Governors of the Federal Reserve System (the "Fed"). Within these resolutions, the Bank is required to take actions, including in connection with the formulation and implementation of compliance and audit plans, reporting and cooperation, and disciplinary matters. These administrative procedures against the Bank are still pending, and are in effect until ruled otherwise by the Fed and the NYDFS, respectively.

d. With regard to the Non Prosecution Agreement ("NPA") between the DOJ and the Bank and Hapoalim Switzerland with respect to the FIFA investigation – on April 30, 2023, the NPA in respect of the FIFA investigation also ended, in accordance with the provisions thereof.

The resolutions with the United States authorities and the attachments thereto are available for reading on the Bank's website, at https://www.bankhapoalim.co.il/he/about/arrangements.

Note that the resolutions with the DOJ include a commitment by the Bank and by Hapoalim Switzerland to continue to cooperate with the US authorities in connection with the matters that were the subject of the investigation.

Note 25 Contingent Liabilities and Special Commitments (continued)

An independent committee headed by Supreme Court Justice (Retired) Prof. Yoram Danziger (the "Committee") examined the managerial and supervisory processes that allowed the actions that are the subject of the tax investigation in its entirety, while addressing corporate governance aspects and the conduct of senior management and the Board of Directors, and examined exhausting the Bank's rights in connection with the tax investigation, including whether the best interests of the Bank justified initiating legal proceedings or other measures towards any third party, and/or reaching other arrangements. After the Committee had concluded its recommendations, and before the recommendations were submitted to the Bank, negotiations were conducted with the representatives of the insurers who had provided officers' liability insurance to the Bank Group. At the conclusion of the negotiations, it was agreed that the insurers would pay the Bank a sum of USD 140 million for the final and absolute settlement of all claims and demands against the insurers and the officers of the Bank Group in connection with the tax affair and the FIFA affair. The Committee considered the prospects of the legal claim against the officers and the overall lateral considerations pertaining to the best interests of the Bank, balanced the considerations, and made a recommendation to the Bank to exhaust its rights with the insurers in a settlement arrangement in which the Bank is paid a total of USD 140 million for final and absolute settlement, as noted, and not to file claims against the officers in the tax affair and in the FIFA affair. The Committee also examined whether there was reason to demand reimbursement of the Bank by parties who served as officers of the Bank for part of the remuneration granted to them during the years relevant to the investigation conducted by the United States enforcement agencies regarding the tax affair. The Committee analyzed the normative situation in this context, weighed additional lateral considerations, and concluded that there was no reason to demand reimbursement of remuneration from these parties. The Committee examined the lessons-learned process performed by the Bank following the investigation of the United States enforcement agencies regarding the tax affair and the FIFA affair. At the conclusion of its examination, the Committee determined that it was impressed by the significant efforts invested by the Bank in the lessons-learned process and by the actions taken and still being taken by the Bank to improve and strengthen its corporate governance. The Committee specified a series of areas in which the Bank had improved its systems, procedures, and conduct.

Following several discussions of the recommendations of the Committee, the Board of Directors resolved, at its meeting of January 26, 2022, to adopt the recommendations of the independent committee in full, both on the tax affair and on the FIFA affair, and instructed the Board of Management and legal advisors of the Bank to realize and implement the recommendations of the independent committee and to formulate detailed arrangements with all of the relevant parties in the legal proceedings referencing these affairs. For details regarding the relevant legal proceedings, see Note 25.D.c.2 and Note 25.D.c.3 above.

Note 26 Liens and Other Restrictions

A. Securities in foreign currency held by the Bank Group abroad, with a balance in the amount of NIS 1.1 billion as at December 31, 2023 (December 31, 2022: NIS 1.1 billion), were pledged mainly to secure deposits from the public (through the FDIC), in accordance with the directives of government authorities in the United States, and in respect of monetary loans received from central banks in those countries.

B. The Bank is a member of the Euroclear clearing house, which is a clearing system for securities traded in international markets. For its securities activity through this clearing house and as collateral for a credit line established by the clearing-house operator in the Bank's favor, the Bank pledged cash and securities with a total balance of USD 50 million (NIS 181 million) as at December 31, 2023 (December 31, 2022: approximately USD 50 million (NIS 176 million)).

C. The Bank is a member of the Maof Clearing House and the TASE Clearing House. For the purpose of the operation of these clearing houses in securing transactions under the Bank's responsibility, the Bank has pledged bonds in accounts opened for that purpose at these clearing houses.
The balance of bonds pledged as at December 31, 2023, totaled NIS 0.6 billion (maximum balance during 2023: NIS 0.6 billion).
The balance of bonds pledged as at December 31, 2022 totaled NIS 0.7 billion (maximum balance during 2022: NIS 1.2 billion).
In addition to the collateral detailed above, the Bank deposited collateral in cash in the amount of NIS 341 million (December 31, 2022: NIS 140 million) in favor of the risk fund of the TASE Clearing House, and in the amount of NIS 318 million (December 31, 2022: NIS 384 million) in favor of the current requirement and the risk fund of the Maof Clearing House. The amount of collateral that clearing-house members are required to deposit is updated from time to time, in accordance with the clearing houses' codes of rules.

D. Bonds with a balance in the amount of NIS 7.2 billion as at December 31, 2023 (December 31, 2022: NIS 14.3 billion) were transferred to secure deposits received within sale transactions of assets under repurchase agreements, according to the volume of the activity. In addition, in respect of daily account settlement with each counterparty to such transactions, the Bank transfers/receives cash to limit exposure to/from the counterparties. Total deposits of the Bank with such counterparties as at December 31, 2023, amounted to NIS 121 million.

E. The Bank and its consolidated companies enter into agreements with counterparties aimed at minimizing the mutual credit risks that arise between banks in the course of derivatives trading. Under these agreements, the fair value of the obligations and rights of the parties in connection with transactions in derivatives is measured periodically, and if the net exposure of one of the parties exceeds a predetermined threshold, that party provides a transfer to the other party in order to limit the exposure, until the date of the next measurement. Some agreements contain a requirement to transfer collateral in addition to the description above.

Note 26 Liens and Other Restrictions (continued)

As at December 31, 2023, the Bank Group provided deposits to counterparties at a value of USD 1,876 million (December 31, 2022: USD 1,417 million), and transferred securities in the amount of NIS 1.2 billion (December 31, 2022: NIS 1.4 billion).

F. In 2021-2023, first-rank permanent liens were recorded on all securities and monies deposited, and which shall be deposited from time to time, in accounts pledged in favor of counterparties and administered at Euroclear Bank SA/NV, to secure commitments of the Bank towards counterparties in connection with initial margin requirements according to an ISDA Master Agreement. Total liens as at December 31, 2023: NIS 5.1 billion (December 31, 2022: NIS 2.6 billion).

G. In July 2008, an agreement was signed between the Bank and the Bank of Israel in which the Bank of Israel made a commitment to provide the Bank with a credit line of up to a total amount of NIS 1 billion, for the purpose of complying with the Bank's commitment as a liquidity supplier in NIS for CLS Bank International.
As a condition for the provision of the loans, the Bank signed a bond in which it applied a first-rank floating lien in favor of the Bank of Israel on its rights to receive monetary amounts and charges in NIS owed at present and/or owed to the Bank in the future from time to time by its customers that are corporations incorporated under the laws of the State of Israel (the "Indebted Customers") and whose repayments to the Bank of any credit received from the Bank are not past due, in respect of credit in NIS, where the average duration of each credit does not exceed three years, granted and/or to be granted by the Bank to the Indebted Customers, up to a total amount of NIS 1.1 billion as at December 31, 2023.
In August 2021, in the course of an industry-wide process of the Bank of Israel with all banks in Israel to regulate the procedure for receiving and securing credit through a uniform and up-to-date document system, the following liens were recorded in favor of the Bank of Israel:

- A lien on all assets and rights of the Bank in any collateral account, and all securities deposited or registered, or to be deposited or registered, in a collateral account; and a lien on all assets and rights of the Bank in the NIS nostro account and the foreign-currency nostro account administered at the Bank of Israel; and a lien on all assets and rights of the Bank in the NIS deposit account; and a lien on all assets and rights of the Bank in the foreign-currency deposit account; and a lien on all assets and rights of the Bank in connection with collateral for certain loan portfolios; and a lien on all assets and rights of the Bank in any proceeds account.
- In addition, a first-rank floating lien was recorded, with unlimited amount, on all pledged assets in the collateral account at Euroclear Bank or in any other collateral account administered at a clearing house outside Israel.

Bonds with a balance in the amount of NIS 3.7 billion as at December 31, 2023 (December 31, 2022: NIS 4.6 billion) are pledged to secure loans from the Bank of Israel.

Note 26 Liens and Other Restrictions (continued)

H. Pursuant to clearing default procedures issued by the Bank of Israel in early 2023 (replacing previous clearing default arrangements performed through the Bank of Israel), with the aim of regulating direct security of the banks for situations of clearing default in the independent payment clearing systems BCC and ABS (charge cards and ATM cards), including mutual guarantee mechanisms for cases of default by one of the banks, as a clearer of various payments and charges through the BCC and ABS clearing houses, to ensure coverage for a clearing default in relation to its expected clearing, for each clearing house separately, the Bank has deposited monies that are managed as interest-bearing deposits, the revalued balances of which, as noted, as at December 31, 2023, totaled NIS 768 million in the BCC account at the Bank of Israel and NIS 79 million in the ABS account at the Bank of Israel.

I. All of the pledged securities listed in Sections A-G above are included in the portfolio available for sale and in the trading book, and the lenders are not permitted to sell or pledge these securities.

	December 31, 2023	December 31, 2022
J. Sources of securities received which the Bank is permitted to sell or pledge, at fair value, before the effect of offsets:		
Securities purchased under agreements to resell	**4,723**	898
K. Applications of securities received as collateral and of securities of the Bank, at fair value, before the effect of offsets:		
Securities sold under agreements to repurchase	**6,279**	13,877

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates

NIS millions

A. Nominal amount of derivative instruments

	December 31, 2023		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	**3,801**	**75,375**	**79,176**
Options written	**-**	**7,383**	**7,383**
Options bought	**-**	**6,283**	**6,283**
Swaps[1]	**41,309**	**831,318**	**872,627**
Total[2]	**45,110**	**920,359**	**965,469**
Of which: hedging derivatives	**31,455**	**-**	**31,455**
Foreign-currency contracts			
Future and forward contracts	**32,018**	**374,422**	**406,440**
Options written	**-**	**21,967**	**21,967**
Options bought	**294**	**20,376**	**20,670**
Swaps	**186**	**47,592**	**47,778**
Total[3]	**32,498**	**464,357**	**496,855**
Of which: hedging derivatives	**-**	**-**	**-**
Share-related contracts			
Future and forward contracts	**-**	**76,954**	**76,954**
Options written	**1,151**	**38,001**	**39,152**
Options bought[4]	**309**	**38,001**	**38,310**
Swaps	**331**	**118,696**	**119,027**
Total	**1,791**	**271,652**	**273,443**
Commodity and other contracts			
Future and forward contracts	**-**	**61**	**61**
Total nominal amount	**79,399**	**1,656,429**	**1,735,828**

(1) Of which: swaps for which the Bank pays a fixed rate of interest in the amount of NIS 431,454 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 32,929 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 18,796 million.
(4) Of which: traded on the stock exchange in the amount of NIS 38,001 million.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

A. Nominal amount of derivative instruments (continued)

	December 31, 2022		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	5,462	90,810	96,272
Options written	109	4,621	4,730
Options bought	356	5,752	6,108
Swaps[1]	30,682	608,907	639,589
Total[2]	36,609	710,090	746,699
Of which: hedging derivatives	27,138	-	27,138
Foreign-currency contracts			
Future and forward contracts	20,577	288,091	308,668
Options written	-	30,807	30,807
Options bought	432	29,000	29,432
Swaps	349	39,324	39,673
Total[3]	21,358	387,222	408,580
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	46,244	46,244
Options written	1,371	18,994	20,365
Options bought[4]	400	18,994	19,394
Swaps	670	70,242	70,912
Total	2,441	154,474	156,915
Commodity and other contracts			
Future and forward contracts	-	69	69
Options written	-	15	15
Options bought	-	25	25
Total	-	109	109
Total nominal amount	60,408	1,251,895	1,312,303

(1) Of which: swaps for which the Bank pays a fixed rate of interest in the amount of NIS 302,054 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 39,298 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 13,182 million.
(4) Of which: traded on the stock exchange in the amount of NIS 18,994 million.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

B. Gross fair value of derivative instruments

	December 31, 2023					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	**1,110**	**8,882**	**9,992**	**719**	**8,610**	**9,329**
Of which: hedging derivatives	**925**	**-**	**925**	**432**	**-**	**432**
Foreign-currency contracts	**184**	**8,946**	**9,130**	**365**	**8,489**	**8,854**
Share-related contracts	**16**	**6,120**	**6,136**	**16**	**6,039**	**6,055**
Commodity and other contracts	**-**	**13**	**13**	**-**	**12**	**12**
Total gross assets (liabilities) in respect of derivatives[(1)]	**1,310**	**23,961**	**25,271**	**1,100**	**23,150**	**24,250**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**1,310**	**23,961**	**25,271**	**1,100**	**23,150**	**24,250**
Of which: not subject to a netting arrangement or similar arrangements	**184**	**1,358**	**1,542**	**114**	**1,635**	**1,749**

(1) Of which: gross fair value of assets in respect of embedded derivatives in the amount of NIS 42 million and gross fair value of liabilities in respect of embedded derivatives in the amount of NIS 10 million.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

B. Gross fair value of derivative instruments (continued)

	December 31, 2022					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	1,412	9,852	11,264	866	10,047	10,913
Of which: hedging derivatives	1,172	-	1,172	469	-	469
Foreign-currency contracts	118	8,250	8,368	277	5,644	5,921
Share-related contracts	33	2,222	2,255	34	2,189	2,223
Commodity and other contracts	-	4	4	-	4	4
Total gross assets (liabilities) in respect of derivatives[(1)]	1,563	20,328	21,891	1,177	17,884	19,061
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	1,563	20,328	21,891	1,177	17,884	19,061
Of which: not subject to a netting arrangement or similar arrangements	248	1,589	1,837	256	1,236	1,492

(1) Of which: gross fair value of assets in respect of embedded derivatives in the amount of NIS 59 million and gross fair value of liabilities in respect of embedded derivatives in the amount of NIS 18 million.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

C. Accounting hedges

1. Effect of accounting hedges

	For the year ended December 31	
	2023	2022*
Profit (loss) from fair-value hedges		
Hedged items	**287**	(847)
Hedging derivatives	**(316)**	870

* Reclassified.

2. Items hedged in fair-value hedges

	Balance as at December 31, 2023		Balance as at December 31, 2022	
	Book value	Cumulative fair-value adjustments that increased (decreased) the book value	Book value	Cumulative fair-value adjustments that increased (decreased) the book value
Securities	**15,466**	**(693)**	15,168	(1,130)
Subordinated notes	**3,399**	**(281)**	3,212	(359)
Deposits from the public*	**13,287**	**3**	9,702	(69)

* Reclassified.

3. Effect of derivatives not designated as hedging instruments on the statement of profit and loss

	For the year ended December 31	
	2023	2022
	Profit (loss) recognized in income (expenses) from activity in derivative instruments[1]	
Interest contracts	**67**	(267)
Foreign-currency contracts	**3,887**	6,826
Share-related contracts	**70**	27
Commodity and other contracts	**1**	-
Total	**4,025**	6,586

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

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty

	December 31, 2023						
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Institutional entities	Others	Total
Balance sheet balance of assets in respect of derivative instruments[2]	**440**	**14,982**	**3,505**	**35**	**3,526**	**2,783**	**25,271**
Gross amounts not offset in the balance sheet:							
Credit risk mitigation in respect of financial instruments	**(71)**	**(11,502)**	**(1,848)**	**(35)**	**(1,822)**	**(718)**	**(15,996)**
Credit risk mitigation in respect of cash collateral received	**-**	**(3,039)**	**(1,655)**	**-**	**(1,649)**	**(721)**	**(7,064)**
Balance sheet credit risk in respect of derivative instruments	**369**	**441**	**2**	**-**	**55**	**1,344**	**2,211**
Off-balance sheet credit risk in respect of derivative instruments[1]	**305**	**9,951**	**964**	**83**	**10,217**	**3,421**	**24,941**
Total credit risk in respect of derivative instruments	**674**	**10,392**	**966**	**83**	**10,272**	**4,765**	**27,152**
Balance sheet balance of liabilities in respect of derivative instruments[2]	**245**	**13,672**	**1,991**	**149**	**6,084**	**2,109**	**24,250**
Gross amounts not offset in the balance sheet:							
Financial instruments	**(71)**	**(11,502)**	**(1,848)**	**(35)**	**(1,822)**	**(718)**	**(15,996)**
Cash collateral pledged	**-**	**(1,912)**	**(121)**	**(50)**	**(2,465)**	**(368)**	**(4,916)**
Net total liabilities in respect of derivative instruments	**174**	**258**	**22**	**64**	**1,797**	**1,023**	**3,338**

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.

(2) Of which, gross fair value of assets in respect of embedded derivatives in the amount of NIS 42 million and gross fair value of liabilities in respect of embedded derivative financial instruments in the amount of NIS 10 million (December 31, 2022: gross fair value in respect of assets in the amount of NIS 59 million and gross fair value in respect of liabilities NIS 18 million).

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	December 31, 2022						
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Institutional entities	Others	Total
Balance sheet balance of assets in respect of derivative instruments[2]	398	11,478	2,535	10	5,358	2,112	21,891
Gross amounts not offset in the balance sheet:							
Credit risk mitigation in respect of financial instruments	-	(10,269)	(2,335)	(10)	(989)	(487)	(14,090)
Credit risk mitigation in respect of cash collateral received	-	(947)	(182)	-	(3,514)	(346)	(4,989)
Balance sheet credit risk in respect of derivative instruments	398	262	18	-	855	1,279	2,812
Off-balance sheet credit risk in respect of derivative instruments[1]	251	2,991	3,276	53	9,957	2,842	19,370
Total credit risk in respect of derivative instruments	649	3,253	3,294	53	10,812	4,121	22,182
Balance sheet balance of liabilities in respect of derivative instruments[2]	194	12,045	2,351	134	1,929	2,408	19,061
Gross amounts not offset in the balance sheet:							
Financial instruments	-	(10,269)	(2,335)	(10)	(989)	(487)	(14,090)
Cash collateral pledged	-	(1,423)	(1)	(95)	(324)	(1,725)	(3,568)
Net total liabilities in respect of derivative instruments	194	353	15	29	616	196	1,403

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.

(2) Of which, gross fair value of assets in respect of embedded derivatives in the amount of NIS 42 million and gross fair value of liabilities in respect of embedded derivative financial instruments in the amount of NIS 10 million (December 31, 2022: gross fair value in respect of assets in the amount of NIS 59 million and gross fair value in respect of liabilities NIS 18 million).

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

E. Details of maturity dates (nominal value amounts)

	December 31, 2023				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	**3,126**	**7,489**	**16,059**	**6,255**	**32,929**
Other	**374,532**	**188,818**	**283,185**	**86,005**	**932,540**
Foreign-currency contracts	**317,329**	**123,565**	**38,499**	**17,462**	**496,855**
Share-related contracts	**179,118**	**88,852**	**4,758**	**715**	**273,443**
Commodity and other contracts	**4**	**35**	**22**	**-**	**61**
Total	**874,109**	**408,759**	**342,523**	**110,437**	**1,735,828**

	December 31, 2022				
Total	565,335	370,033	283,650	93,285	1,312,303

F. Derivative financial instruments – risk control

(1) The Bank executes transactions in derivative financial instruments as part of its financial risk management (linkage base, interest rate, and liquidity exposures) and as a service to its customers. From time to time, the Bank designates some of the derivative instruments as hedging instruments in fair-value hedges or cash-flow hedges.

(2) The principal types of transactions in which the Bank operates are:

- Forward

A contract between two parties for the purchase and sale of a defined quantity of commodities, currencies, interest rates, or other financial instruments (hereinafter: underlying assets), to be transacted at a future date and at a predefined price.

- Future

A future contract traded on stock markets, for the purchase or sale of a quantity of standard units of underlying assets, to be transacted at a future date and at a predefined price.

- Swap

A contract for the exchange at the time of the transaction of a defined quantity of underlying assets, with a mutual obligation to re-exchange the exchanged items at a future date.

- Option

A contract that confers, for the payment of a premium, the right to purchase (call) or sell (put) underlying assets at a price, quantity, and time denoted in advance.

- Spot

An exchange transaction between two currencies on the basis of a pre-agreed rate, for transaction within two days.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

(3) Activity in derivative financial instruments involves a number of risks, as detailed below:

Credit risk – The maximum amount of loss to the Bank if the counterparty does not comply with the terms of the contract.

Market risk – Risk arising from fluctuations in the value of a derivative financial instrument as a result of a change in market prices, such as exchange rates, interest rates, etc.

Liquidity risk – Risk deriving from the inability to close a position rapidly by settlement in cash or by creating a reverse position.

Operational risk – Risk deriving from the erroneous operation of transactions, from the time that they are formed until the end of account settlement in respect thereof, due to human error or as a result of a mechanical failure in operation.

Market and liquidity risks arising from this activity are managed and measured routinely in specialized automated systems known in the international markets for these purposes, such as Summit, Devon, and Algorithmics, and in automated systems developed by the Bank.

Credit risk arising from transactions in derivative financial instruments with respect to the counterparty to the transactions is usually measured by applying conservative coefficients to the nominal amounts of the transactions, and using the scenarios approach.

The operational issues arising from this activity are examined and controlled routinely by a specialized unit.

The use of derivative instruments as part of the management of the Bank's current (non-trading) activity is aimed at achieving objectives and complying with limits as approved by the Board of Directors (linkage base, interest rate, and liquidity exposures).

The Bank provides comprehensive service to its customers for hedging and investing in derivative financial instruments via the dealing rooms.

Activity in financial instruments in the areas of trading is designed to respond to customers' needs while undertaking limited and controlled risk in accordance with authorizations.

The authorizations for activity and risk are measured, as relevant, in terms of sensitivity to risk factors (such as vega); theoretical loss in different scenarios, including an extreme scenario; in terms of VaR; and in terms of nominal amounts.

In certain cases, the procedure also prescribes limiting losses by means of a stop-loss order.

Note 28 Supervisory Operating Segments

Assignment of customers to the supervisory operating segments

Reporting on operating segments 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 whose portfolio of financial assets exceeds NIS 3 million.
- **Household Segment –** Private individuals other than those customers included in the private banking segment.
- **Microbusiness and Small Business Segment –** Businesses with an annual revenue lower than NIS 50 million.
- **Mid-sized Business Segment –** Businesses with an annual revenue greater than or equal to NIS 50 million, and lower than NIS 250 million.
- **Large Business Segment –** Businesses with an annual revenue greater than or equal to NIS 250 million.
- **Financial Management Segment –** Includes trading activity, asset and liability management, non-financial investment, and additional activities, as defined in the directives of the Supervisor of Banks.
- **Institutional Entity Segment –** Includes provident funds, mutual funds, pension funds, study funds, and insurance companies, in accordance with the definitions of the Supervisor of Banks.
- **Other Segment –** Includes activities of the Bank Group with negligible volumes not assigned to the other segments.

In addition, pursuant to the directive of the Banking Supervision Department, if the annual revenue of a business client does not reflect the volume of the client's activity, and the client's indebtedness is greater than or equal to NIS 100 million, the client can be assigned to the Large Business Segment. If the client's indebtedness is lower than NIS 100 million, the client can be assigned to the appropriate supervisory operating segment based on the total balance sheet assets of the business, in accordance with the rules set forth in the directive.

If the Bank does not have information regarding the annual revenue of a business client that has no indebtedness to the Bank, the client can be classified based on its total financial assets at the Bank (including monetary deposits, securities portfolios, and other monetary assets), in accordance with the rules detailed in the directive.

Note that the Bank takes various actions to obtain information regarding the annual revenue of its business clients. However, in certain cases, in the absence of information regarding the annual revenue, customer classifications are determined using evaluations and estimates based on the Bank's familiarity with the client and its activity. The Bank endeavors to obtain complete data regarding these customers.

For details regarding the division of the results of operations among the various segments, which is performed according to the rules for such division used by the Bank in the management approach, see Note 28A below.

Note 28 Supervisory Operating Segments (continued)

Information regarding supervisory operating segments

	For the year ended December 31, 2023				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Interest income from externals	**9,279**	**32**	**4,488**	**2,678**	**6,449**
Interest expenses for externals	**(2,814)**	**(1,347)**	**(2,189)**	**(1,073)**	**(2,527)**
Net interest income:					
From externals	**6,465**	**(1,315)**	**2,299**	**1,605**	**3,922**
Inter-segmental	**381**	**1,829**	**1,661**	**(243)**	**(1,499)**
Total net interest income	**6,846**	**514**	**3,960**	**1,362**	**2,423**
Non-interest income:					
Non-interest financing income (expenses)	**(54)**	**1**	**19**	**(39)**	**11**
Fees and other income	**1,279**	**141**	**1,007**	**378**	**709**
Total non-interest income	**1,225**	**142**	**1,026**	**339**	**720**
Total income	**8,071**	**656**	**4,986**	**1,701**	**3,143**
Provision (income) for credit losses	**495**	**1**	**718**	**524**	**80**
Operating and other expenses:					
For externals	**3,824**	**216**	**1,899**	**449**	**738**
Inter-segmental	**-**	**-**	**-**	**-**	**-**
Total operating and other expenses	**3,824**	**216**	**1,899**	**449**	**738**
Profit (loss) before taxes	**3,752**	**439**	**2,369**	**728**	**2,325**
Provision for taxes (tax benefit) on profit (loss)	**1,302**	**152**	**822**	**260**	**831**
Profit (loss) after taxes	**2,450**	**287**	**1,547**	**468**	**1,494**
The Bank's share in profits of equity-basis investees	**-**	**-**	**-**	**-**	**-**
Net profit (loss) before attribution to non-controlling interests	**2,450**	**287**	**1,547**	**468**	**1,494**
Loss (profit) attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**
Net profit (loss) attributed to shareholders of the Bank	**2,450**	**287**	**1,547**	**468**	**1,494**

NIS millions

For the year ended December 31, 2023								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
100	**7,869**	**-**	**30,895**	**8**	**1,651**	**417**	**2,076**	**32,971**
(2,867)	**(2,865)**	**-**	**(15,682)**	**(2)**	**(346)**	**(856)**	**(1,204)**	**(16,886)**
(2,767)	**5,004**	**-**	**15,213**	**6**	**1,305**	**(439)**	**872**	**16,085**
2,945	**(5,074)**	**-**	**-**	**-**	**(578)**	**578**	**-**	**-**
178	**(70)**	**-**	**15,213**	**6**	**727**	**139**	**872**	**16,085**
67	**1,262**	**-**	**1,267**	**-**	**-**	**-**	**-**	**1,267**
92	**180**	**192**	**3,978**	**-**	**51**	**1**	**52**	**4,030**
159	**1,442**	**192**	**5,245**	**-**	**51**	**1**	**52**	**5,297**
337	**1,372**	**192**	**20,458**	**6**	**778**	**140**	**924**	**21,382**
(2)	**(6)**	**-**	**1,810**	**-**	**69**	**-**	**69**	**1,879**
161	**376**	**105**	**7,768**	**57**	**282**	**124**	**463**	**8,231**
-	**47**	**(47)**	**-**	**-**	**-**	**-**	**-**	**-**
161	**423**	**58**	**7,768**	**57**	**282**	**124**	**463**	**8,231**
178	**955**	**134**	**10,880**	**(51)**	**427**	**16**	**392**	**11,272**
61	**287**	**48**	**3,763**	**(6)**	**168**	**5**	**167**	**3,930**
117	**668**	**86**	**7,117**	**(45)**	**259**	**11**	**225**	**7,342**
-	**18**	**-**	**18**	**-**	**-**	**-**	**-**	**18**
117	**686**	**86**	**7,135**	**(45)**	**259**	**11**	**225**	**7,360**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
117	**686**	**86**	**7,135**	**(45)**	**259**	**11**	**225**	**7,360**

Note 28 Supervisory Operating Segments (continued)

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2023				
	Activity in Israel				
	Households[4]	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Average balance of assets[1]	**162,645**	**715**	**57,343**	**39,910**	**115,328**
Of which: investments in equity-basis investees[1]	**-**	**-**	**-**	**-**	**-**
Average balance of gross credit to the public[1]	**163,988**	**717**	**58,199**	**40,813**	**117,219**
Balance of gross credit to the public at the end of the reported period	**165,603**	**729**	**56,356**	**43,245**	**123,039**
Balance of non-accruing debts and debts past due by 90 days or more	**1,061**	**3**	**647**	**773**	**1,437**
Balance of other problematic debts	**380**	**-**	**561**	**362**	**1,883**
Allowance for credit losses at the end of the reported period	**1,738**	**2**	**1,763**	**1,383**	**2,455**
Net charge-offs in the reported period	**203**	**-**	**161**	**18**	**(2)**
Average balance of liabilities[1]	**167,802**	**40,078**	**97,758**	**33,610**	**69,719**
Of which: average balance of deposits from the public[1]	**167,777**	**40,076**	**97,575**	**33,445**	**69,039**
Balance of deposits from the public at the end of the reported period	**172,289**	**41,880**	**98,260**	**35,394**	**79,266**
Average balance of risk-adjusted assets[1][2]	**109,508**	**1,453**	**70,748**	**50,864**	**136,519**
Balance of risk-adjusted assets at the end of the reported period[2]	**111,451**	**1,526**	**70,448**	**52,517**	**140,430**
Average balance of assets under management[1][3]	**66,615**	**54,019**	**47,308**	**24,215**	**99,577**
Segmentation of net interest income:					
Spread from credit granting activity	**2,790**	**6**	**1,802**	**898**	**1,883**
Spread from deposit taking activity	**4,056**	**508**	**2,158**	**464**	**540**
Other	**-**	**-**	**-**	**-**	**-**
Total net interest income	**6,846**	**514**	**3,960**	**1,362**	**2,423**

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 24 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

NIS millions

For the year ended December 31, 2023								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
3,068	**265,237**	**261**	**644,507**	**87**	**20,129**	**8,950**	**29,166**	**673,673**
-	**1,179**	**-**	**1,179**	**-**	**-**	**-**	**-**	**1,179**
2,696	**-**	**-**	**383,632**	**-**	**20,012**	**-**	**20,012**	**403,644**
4,840	**-**	**-**	**393,812**	**-**	**20,563**	**-**	**20,563**	**414,375**
-	**-**	**-**	**3,921**	**-**	**388**	**-**	**388**	**4,309**
-	**-**	**-**	**3,186**	**-**	**895**	**-**	**895**	**4,081**
23	**44**	**-**	**7,408**	**-**	**581**	**-**	**581**	**7,989**
-	**-**	**-**	**380**	**-**	**1**	**-**	**1**	**381**
94,602	**91,042**	**4**	**594,615**	**114**	**9,159**	**18,451**	**27,724**	**622,339**
94,584	**-**	**-**	**502,496**	**-**	**8,971**	**18,003**	**26,974**	**529,470**
98,368	**-**	**-**	**525,457**	**1**	**10,738**	**18,399**	**29,138**	**554,595**
5,483	**25,147**	**3,296**	**403,018**	**16**	**25,833**	**108**	**25,957**	**428,975**
6,266	**25,367**	**2,989**	**410,994**	**-**	**26,661**	**197**	**26,858**	**437,852**
359,479	**96,136**	**3,889**	**751,238**	**-**	**-**	**-**	**-**	**751,238**
8	**-**	**-**	**7,387**	**6**	**592**	**-**	**598**	**7,985**
159	**-**	**-**	**7,885**	**-**	**135**	**-**	**135**	**8,020**
11	**(70)**	**-**	**(59)**	**-**	**-**	**139**	**139**	**80**
178	**(70)**	**-**	**15,213**	**6**	**727**	**139**	**872**	**16,085**

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2023								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Interest income from externals	**6,400**	**-**	**2,879**	**9,279**	**20**	**-**	**12**	**32**	**9,311**
Interest expenses for externals	**-**	**-**	**(2,814)**	**(2,814)**	**-**	**-**	**(1,347)**	**(1,347)**	**(4,161)**
Net interest income:									
From externals	**6,400**	**-**	**65**	**6,465**	**20**	**-**	**(1,335)**	**(1,315)**	**5,150**
Inter-segmental	**(4,992)**	**-**	**5,373**	**381**	**(17)**	**-**	**1,846**	**1,829**	**2,210**
Total net interest income	**1,408**	**-**	**5,438**	**6,846**	**3**	**-**	**511**	**514**	**7,360**
Non-interest income:									
Non-interest financing income (expenses)	**(55)**	**-**	**1**	**(54)**	**-**	**-**	**1**	**1**	**(53)**
Fees and other income	**45**	**357**	**877**	**1,279**	**-**	**9**	**132**	**141**	**1,420**
Total non-interest income	**(10)**	**357**	**878**	**1,225**	**-**	**9**	**133**	**142**	**1,367**
Total income	**1,398**	**357**	**6,316**	**8,071**	**3**	**9**	**644**	**656**	**8,727**
Provision (income) for credit losses	**117**	**-**	**378**	**495**	**-**	**-**	**1**	**1**	**496**
Operating and other expenses:									
For externals	**488**	**124**	**3,212**	**3,824**	**-**	**2**	**214**	**216**	**4,040**
Inter-segmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total operating and other expenses	**488**	**124**	**3,212**	**3,824**	**-**	**2**	**214**	**216**	**4,040**
Profit (loss) before taxes	**793**	**233**	**2,726**	**3,752**	**3**	**7**	**429**	**439**	**4,191**
Provision for taxes (tax benefit) on profit (loss)	**274**	**81**	**947**	**1,302**	**1**	**2**	**149**	**152**	**1,454**
Net profit (loss) attributed to shareholders of the Bank	**519**	**152**	**1,779**	**2,450**	**2**	**5**	**280**	**287**	**2,737**

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2023								
	Household Segment				Private Banking Segment				Total
	Housing loans[4]	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Average balance of assets[1]	**128,775**	**5,316**	**28,554**	**162,645**	**440**	**112**	**163**	**715**	**163,360**
Average balance of gross credit to the public[1]	**129,300**	**5,316**	**29,372**	**163,988**	**441**	**112**	**164**	**717**	**164,705**
Balance of gross credit to the public at the end of the reported period	**131,134**	**4,671**	**29,798**	**165,603**	**429**	**147**	**153**	**729**	**166,332**
Balance of non-accruing debts and debts past due by 90 days or more	**752**	**-**	**309**	**1,061**	**3**	**-**	**-**	**3**	**1,064**
Balance of other problematic debts	**-**	**-**	**380**	**380**	**-**	**-**	**-**	**-**	**380**
Allowance for credit losses at the end of the reported period	**627**	**-**	**1,111**	**1,738**	**1**	**-**	**1**	**2**	**1,740**
Net charge-offs in the reported period	**8**	**-**	**195**	**203**	**-**	**-**	**-**	**-**	**203**
Average balance of liabilities[1]	**-**	**-**	**167,802**	**167,802**	**-**	**-**	**40,078**	**40,078**	**207,880**
Of which: average balance of deposits from the public[1]	**-**	**-**	**167,777**	**167,777**	**-**	**-**	**40,076**	**40,076**	**207,853**
Balance of deposits from the public at the end of the reported period	**-**	**-**	**172,289**	**172,289**	**-**	**-**	**41,880**	**41,880**	**214,169**
Average balance of risk-adjusted assets[1][2]	**71,106**	**4,515**	**33,887**	**109,508**	**240**	**177**	**1,036**	**1,453**	**110,961**
Balance of risk-adjusted assets at the end of the reported period[2]	**72,224**	**4,387**	**34,840**	**111,451**	**234**	**170**	**1,122**	**1,526**	**112,977**
Average balance of assets under management[1][3]	**-**	**-**	**66,615**	**66,615**	**-**	**-**	**54,019**	**54,019**	**120,634**
Segmentation of net interest income:									
Spread from credit granting activity	**1,408**	**-**	**1,382**	**2,790**	**3**	**-**	**3**	**6**	**2,796**
Spread from deposit taking activity	**-**	**-**	**4,056**	**4,056**	**-**	**-**	**508**	**508**	**4,564**
Total net interest income	**1,408**	**-**	**5,438**	**6,846**	**3**	**-**	**511**	**514**	**7,360**

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 24 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2023									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Interest income from externals	**1,538**	**2,950**	**4,488**	**1,420**	**1,258**	**2,678**	**2,888**	**3,561**	**6,449**	**13,615**
Interest expenses for externals	**(300)**	**(1,889)**	**(2,189)**	**(143)**	**(930)**	**(1,073)**	**(253)**	**(2,274)**	**(2,527)**	**(5,789)**
Net interest income:										
From externals	**1,238**	**1,061**	**2,299**	**1,277**	**328**	**1,605**	**2,635**	**1,287**	**3,922**	**7,826**
Inter-segmental	**(354)**	**2,015**	**1,661**	**(697)**	**454**	**(243)**	**(1,612)**	**113**	**(1,499)**	**(81)**
Total net interest income	**884**	**3,076**	**3,960**	**580**	**782**	**1,362**	**1,023**	**1,400**	**2,423**	**7,745**
Non-interest income:										
Non-interest financing income (expenses)	**1**	**18**	**19**	**(55)**	**16**	**(39)**	**(65)**	**76**	**11**	**(9)**
Fees and other income	**207**	**800**	**1,007**	**213**	**165**	**378**	**370**	**339**	**709**	**2,094**
Total non-interest income	**208**	**818**	**1,026**	**158**	**181**	**339**	**305**	**415**	**720**	**2,085**
Of which: income from credit cards	**-**	**148**	**148**	**-**	**9**	**9**	**-**	**5**	**5**	**162**
Total income	**1,092**	**3,894**	**4,986**	**738**	**963**	**1,701**	**1,328**	**1,815**	**3,143**	**9,830**
Provision (income) for credit losses	**270**	**448**	**718**	**152**	**372**	**524**	**243**	**(163)**	**80**	**1,322**
Operating and other expenses:										
For externals	**336**	**1,563**	**1,899**	**165**	**284**	**449**	**278**	**460**	**738**	**3,086**
Inter-segmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total operating and other expenses	**336**	**1,563**	**1,899**	**165**	**284**	**449**	**278**	**460**	**738**	**3,086**
Profit (loss) before taxes	**486**	**1,883**	**2,369**	**421**	**307**	**728**	**807**	**1,518**	**2,325**	**5,422**
Provision for taxes (tax benefit) on profit (loss)	**168**	**654**	**822**	**151**	**109**	**260**	**289**	**542**	**831**	**1,913**
Net profit (loss) attributed to shareholders of the Bank	**318**	**1,229**	**1,547**	**270**	**198**	**468**	**518**	**976**	**1,494**	**3,509**

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2023									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Average balance of assets[1]	**19,439**	**37,904**	**57,343**	**19,121**	**20,789**	**39,910**	**44,120**	**71,208**	**115,328**	**212,581**
Average balance of gross credit to the public[1]	**19,639**	**38,560**	**58,199**	**19,502**	**21,311**	**40,813**	**44,780**	**72,439**	**117,219**	**216,231**
Balance of gross credit to the public at the end of the reported period	**20,022**	**36,334**	**56,356**	**21,276**	**21,969**	**43,245**	**48,104**	**74,935**	**123,039**	**222,640**
Balance of non-accruing debts and debts past due by 90 days or more	**234**	**413**	**647**	**261**	**512**	**773**	**430**	**1,007**	**1,437**	**2,857**
Balance of other problematic debts	**168**	**393**	**561**	**157**	**205**	**362**	**1,108**	**775**	**1,883**	**2,806**
Allowance for credit losses at the end of the reported period	**687**	**1,076**	**1,763**	**625**	**758**	**1,383**	**930**	**1,525**	**2,455**	**5,601**
Net charge-offs in the reported period	**14**	**147**	**161**	**3**	**15**	**18**	**(9)**	**7**	**(2)**	**177**
Average balance of liabilities[1]	**14,100**	**83,658**	**97,758**	**5,436**	**28,174**	**33,610**	**8,583**	**61,136**	**69,719**	**201,087**
Of which: average balance of deposits from the public[1]	**13,971**	**83,604**	**97,575**	**5,318**	**28,127**	**33,445**	**8,316**	**60,723**	**69,039**	**200,059**
Balance of deposits from the public at the end of the reported period	**13,577**	**84,683**	**98,260**	**5,300**	**30,094**	**35,394**	**6,971**	**72,295**	**79,266**	**212,920**
Average balance of risk-adjusted assets[1][2]	**28,754**	**41,994**	**70,748**	**26,799**	**24,065**	**50,864**	**63,595**	**72,924**	**136,519**	**258,131**
Balance of risk-adjusted assets at the end of the reported period[2]	**29,781**	**40,667**	**70,448**	**28,927**	**23,590**	**52,517**	**65,472**	**74,958**	**140,430**	**263,395**
Average balance of assets under management[1][3]	**-**	**47,308**	**47,308**	**-**	**24,215**	**24,215**	**-**	**99,577**	**99,577**	**171,100**
Segmentation of net interest income:										
Spread from credit granting activity	**587**	**1,215**	**1,802**	**493**	**405**	**898**	**925**	**958**	**1,883**	**4,583**
Spread from deposit taking activity	**297**	**1,861**	**2,158**	**87**	**377**	**464**	**98**	**442**	**540**	**3,162**
Total net interest income	**884**	**3,076**	**3,960**	**580**	**782**	**1,362**	**1,023**	**1,400**	**2,423**	**7,745**

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2023				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Interest income from externals	**525**	**7,344**	**-**	**-**	**7,869**
Interest expenses for externals	**-**	**(2,865)**	**-**	**-**	**(2,865)**
Net interest income:					
From externals	**525**	**4,479**	**-**	**-**	**5,004**
Inter-segmental	**(1)**	**(5,012)**	**(64)**	**3**	**(5,074)**
Total net interest income	**524**	**(533)**	**(64)**	**3**	**(70)**
Non-interest financing income:					
From externals	**4,013**	**(3,120)**	**369**	**-**	**1,262**
Inter-segmental	**(4,019)**	**4,019**	**-**	**-**	**-**
Fees and other income	**-**	**93**	**-**	**87**	**180**
Total non-interest income	**(6)**	**992**	**369**	**87**	**1,442**
Total income	**518**	**459**	**305**	**90**	**1,372**
Provision (income) for credit losses	**-**	**(6)**	**-**	**-**	**(6)**
Operating and other expenses:					
For externals	**212**	**123**	**28**	**13**	**376**
Inter-segmental	**-**	**47**	**-**	**-**	**47**
Total operating and other expenses	**212**	**170**	**28**	**13**	**423**
Profit (loss) before taxes	**306**	**295**	**277**	**77**	**955**
Provision for taxes (tax benefit) on profit (loss)	**105**	**61**	**95**	**26**	**287**
Profit (loss) after taxes	**201**	**234**	**182**	**51**	**668**
The Bank's share in profits of equity-basis investees	**-**	**-**	**18**	**-**	**18**
Net profit (loss) before attribution to non-controlling interests	**201**	**234**	**200**	**51**	**686**
Loss (profit) attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**
Net profit (loss) attributed to shareholders of the Bank	**201**	**234**	**200**	**51**	**686**

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2023				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Average balance of assets[1]	**41,678**	**216,075**	**6,571**	**913**	**265,237**
Of which: investments in equity-basis investees[1]	**-**	**-**	**1,179**	**-**	**1,179**
Average balance of liabilities[1]	**17,154**	**73,779**	**-**	**109**	**91,042**
Average balance of risk-adjusted assets[1][2]	**7,979**	**12,523**	**4,645**	**-**	**25,147**
Balance of risk-adjusted assets at the end of the reported period[2]	**8,540**	**11,678**	**5,149**	**-**	**25,367**
Average balance of assets under management[1][3]	**-**	**-**	**-**	**96,136**	**96,136**
Components of net interest income and non-interest income					
Net exchange-rate differences[4]	**117**	**83**	**-**	**-**	**-**
Net CPI differences[4]	**-**	**914**	**-**	**-**	**-**
Net interest exposures[4]	**84**	**(1,117)**	**-**	**-**	**-**
Net share exposures[4]	**70**	**-**	**-**	**-**	**-**
Interest spreads attributed to financial management	**-**	**708**	**-**	**-**	**-**
Total net interest income and non-interest income based on accrual base	**271**	**588**	**-**	**-**	**-**
Profits or losses from sale or other-than-temporary impairment of bonds	**-**	**(594)**	**-**	**-**	**-**
Change in gap between fair value and accrual base of derivative instruments recorded in profit and loss	**-**	**372**	**-**	**-**	**-**
Other non-interest income	**247**	**93**	**-**	**-**	**-**
Total net interest income and non-interest income	**518**	**459**	**-**	**-**	**-**

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Including in respect of securities and derivative instruments.

Note 28 Supervisory Operating Segments (continued)

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2022				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Interest income from externals	7,496	26	2,961	1,523	3,283
Interest expenses for externals	(700)	(276)	(457)	(354)	(742)
Net interest income:					
From externals	6,796	(250)	2,504	1,169	2,541
Inter-segmental	(2,541)	517	361	(96)	(718)
Total net interest income	4,255	267	2,865	1,073	1,823
Non-interest income:					
Non-interest financing income (expenses)	1	1	17	(25)	17
Fees and other income	1,313	145	979	315	600
Total non-interest income	1,314	146	996	290	617
Total income	5,569	413	3,861	1,363	2,440
Provision (income) for credit losses	112	(1)	192	(109)	(368)
Operating and other expenses:					
For externals	3,680	202	1,897	424	669
Inter-segmental	-	-	-	-	-
Total operating and other expenses	3,680	202	1,897	424	669
Profit (loss) before taxes	1,777	212	1,772	1,048	2,139
Provision for taxes (tax benefit) on profit (loss)	622	74	617	379	767
Profit (loss) after taxes	1,155	138	1,155	669	1,372
The Bank's share in profits of equity-basis investees	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	1,155	138	1,155	669	1,372
Loss (profit) attributed to non-controlling interests	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	1,155	138	1,155	669	1,372

NIS millions

For the year ended December 31, 2022								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
33	2,871	-	18,193	-	894	133	1,027	19,220
(948)	(1,972)	-	(5,449)	-	(74)	(230)	(304)	(5,753)
(915)	899	-	12,744	-	820	(97)	723	13,467
1,099	1,381	-	3	-	(254)	251	(3)	-
184	2,280	-	12,747	-	566	154	720	13,467
52	515	-	578	-	(6)	9	3	581
99	150	232	3,833	(1)	32	8	39	3,872
151	665	232	4,411	(1)	26	17	42	4,453
335	2,945	232	17,158	(1)	592	171	762	17,920
(2)	35	-	(141)	-	107	-	107	(34)
168	367	112	7,519	73	296	84	453	7,972
-	45	(45)	-	-	-	-	-	-
168	412	67	7,519	73	296	84	453	7,972
169	2,498	165	9,780	(74)	189	87	202	9,982
60	875	60	3,454	(10)	74	30	94	3,548
109	1,623	105	6,326	(64)	115	57	108	6,434
-	99	-	99	-	-	-	-	99
109	1,722	105	6,425	(64)	115	57	108	6,533
-	-	-	-	-	-	(1)	(1)	(1)
109	1,722	105	6,425	(64)	115	56	107	6,532

Note 28 Supervisory Operating Segments (continued)

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2022				
	Activity in Israel				
	Households[4]	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Average balance of assets*[1]	154,558	777	58,845	38,137	98,012
Of which: investments in equity-basis investees[1]	-	-	-	-	-
Average balance of gross credit to the public*[1]	155,610	780	59,626	38,743	100,042
Balance of gross credit to the public at the end of the reported period	162,541	781	61,649	39,270	108,834
Balance of non-accruing debts and debts past due by 90 days or more	825	-	436	326	1,295
Balance of other problematic debts	414	-	586	594	517
Allowance for credit losses at the end of the reported period	1,445	2	1,283	691	2,531
Net charge-offs in the reported period	25	-	(72)	(18)	(42)
Average balance of liabilities[1]	161,690	35,839	96,203	34,673	78,814
Of which: average balance of deposits from the public[1]	161,667	35,837	95,984	34,504	78,437
Balance of deposits from the public at the end of the reported period	165,379	36,379	100,411	34,279	78,647
Average balance of risk-adjusted assets[1][2]	104,752	1,209	73,440	50,402	116,643
Balance of risk-adjusted assets at the end of the reported period[2]	106,769	1,300	72,998	49,116	128,404
Average balance of assets under management[1][3]	66,218	52,053	45,412	28,478	111,292
Segmentation of net interest income:					
Spread from credit granting activity	2,841	9	1,982	851	1,507
Spread from deposit taking activity	1,414	258	883	222	316
Other	-	-	-	-	-
Total net interest income	4,255	267	2,865	1,073	1,823

* Reclassified.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Includes housing loans in the amount of NIS 22.9 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

NIS millions

For the year ended December 31, 2022								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
2,827	267,093	323	620,572	11	17,839	6,720	24,570	645,142
-	1,015	-	1,015	-	-	-	-	1,015
2,578	-	-	357,379	-	17,036	-	17,036	374,415
2,031	-	-	375,106	-	19,156	-	19,156	394,262
-	-	-	2,882	10	635	-	645	3,527
-	-	-	2,111	-	779	-	779	2,890
12	50	-	6,014	-	502	-	502	6,516
-	-	-	(107)	-	12	-	12	(95)
93,514	75,652	5	576,390	135	7,378	15,322	22,835	599,225
93,482	-	-	499,911	-	7,055	15,033	22,088	521,999
92,678	-	-	507,773	1	7,886	16,928	24,815	532,588
4,829	22,531	4,047	377,853	38	22,411	116	22,565	400,418
5,049	24,652	3,296	391,584	24	23,883	86	23,993	415,577
343,391	94,048	4,083	744,975	-	-	-	-	744,975
7	*-	-	*7,197	-	504	*-	*504	*7,701
169	*-	-	*3,262	-	62	*-	*62	*3,324
8	*2,280	-	*2,288	-	-	*154	*154	*2,442
184	2,280	-	12,747	-	566	154	720	13,467

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2022								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Interest income from externals	5,465	15	2,016	7,496	18	-	8	26	7,522
Interest expenses for externals	-	-	(700)	(700)	-	-	(276)	(276)	(976)
Net interest income:									
From externals	5,465	15	1,316	6,796	18	-	(268)	(250)	6,546
Inter-segmental	(4,101)	(3)	1,563	(2,541)	(14)	-	531	517	(2,024)
Total net interest income	1,364	12	2,879	4,255	4	-	263	267	4,522
Non-interest income:									
Non-interest financing income (expenses)	(3)	-	4	1	-	-	1	1	2
Fees and other income	45	331	937	1,313	-	6	139	145	1,458
Total non-interest income	42	331	941	1,314	-	6	140	146	1,460
Total income	1,406	343	3,820	5,569	4	6	403	413	5,982
Provision (income) for credit losses	71	-	41	112	-	-	(1)	(1)	111
Operating and other expenses:									
For externals	453	176	3,051	3,680	-	2	200	202	3,882
Inter-segmental	-	-	-	-	-	-	-	-	-
Total operating and other expenses	453	176	3,051	3,680	-	2	200	202	3,882
Profit (loss) before taxes	882	167	728	1,777	4	4	204	212	1,989
Provision for taxes (tax benefit) on profit (loss)	306	59	257	622	1	1	72	74	696
Net profit (loss) attributed to shareholders of the Bank	576	108	471	1,155	3	3	132	138	1,293

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2022								
	Household Segment				Private Banking Segment				Total
	Housing loans[4]	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Average balance of assets*[1]	121,662	3,844	29,052	154,558	473	108	196	777	155,335
Average balance of gross credit to the public*[1]	122,066	3,844	29,700	155,610	474	108	198	780	156,390
Balance of gross credit to the public at the end of the reported period*	127,632	4,700	30,209	162,541	473	149	159	781	163,322
Balance of non-accruing debts and debts past due by 90 days or more	572	-	253	825	-	-	-	-	825
Balance of other problematic debts	-	-	414	414	-	-	-	-	414
Allowance for credit losses at the end of the reported period	519	-	926	1,445	-	-	2	2	1,447
Net charge-offs in the reported period	2	-	23	25	-	-	-	-	25
Average balance of liabilities[1]	-	-	161,690	161,690	-	-	35,839	35,839	197,529
Of which: average balance of deposits from the public[1]	-	-	161,667	161,667	-	-	35,837	35,837	197,504
Balance of deposits from the public at the end of the reported period	-	-	165,379	165,379	-	-	36,379	36,379	201,758
Average balance of risk-adjusted assets[1][2]	68,493	4,208	32,051	104,752	253	166	790	1,209	105,961
Balance of risk-adjusted assets at the end of the reported period[2]	69,884	4,260	32,625	106,769	261	163	876	1,300	108,069
Average balance of assets under management[1][3]	-	-	66,218	66,218	-	-	52,053	52,053	118,271
Segmentation of net interest income:									
Spread from credit granting activity	1,364	12	1,465	2,841	4	-	5	9	2,850
Spread from deposit taking activity	-	-	1,414	1,414	-	-	258	258	1,672
Total net interest income	1,364	12	2,879	4,255	4	-	263	267	4,522

* Reclassified.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Includes housing loans in the amount of NIS 22.9 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2022									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Interest income from externals	966	1,995	2,961	760	763	1,523	1,413	1,870	3,283	7,767
Interest expenses for externals	(60)	(397)	(457)	(31)	(323)	(354)	(66)	(676)	(742)	(1,553)
Net interest income:										
From externals	906	1,598	2,504	729	440	1,169	1,347	1,194	2,541	6,214
Inter-segmental	(158)	519	361	(237)	141	(96)	(556)	(162)	(718)	(453)
Total net interest income	748	2,117	2,865	492	581	1,073	791	1,032	1,823	5,761
Non-interest income:										
Non-interest financing income (expenses)	1	16	17	(41)	16	(25)	(42)	59	17	9
Fees and other income	208	771	979	157	158	315	269	331	600	1,894
Total non-interest income	209	787	996	116	174	290	227	390	617	1,903
Of which: income from credit cards	-	122	122	-	8	8	-	4	4	134
Total income	957	2,904	3,861	608	755	1,363	1,018	1,422	2,440	7,664
Provision (income) for credit losses	49	143	192	(160)	51	(109)	215	(583)	(368)	(285)
Operating and other expenses:										
For externals	363	1,534	1,897	161	263	424	246	423	669	2,990
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	363	1,534	1,897	161	263	424	246	423	669	2,990
Profit (loss) before taxes	545	1,227	1,772	607	441	1,048	557	1,582	2,139	4,959
Provision for taxes (tax benefit) on profit (loss)	188	429	617	219	160	379	201	566	767	1,763
Net profit (loss) attributed to shareholders of the Bank	357	798	1,155	388	281	669	356	1,016	1,372	3,196

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2022									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Average balance of assets*[1]	19,987	38,858	58,845	17,947	20,190	38,137	38,624	59,388	98,012	194,994
Average balance of gross credit to the public*[1]	20,206	39,420	59,626	18,200	20,543	38,743	39,121	60,921	100,042	198,411
Balance of gross credit to the public at the end of the reported period	21,569	40,080	61,649	18,071	21,199	39,270	43,343	65,491	108,834	209,753
Balance of non-accruing debts and debts past due by 90 days or more	67	369	436	170	156	326	608	687	1,295	2,057
Balance of other problematic debts	116	470	586	62	532	594	143	374	517	1,697
Allowance for credit losses at the end of the reported period	481	802	1,283	321	370	691	865	1,666	2,531	4,505
Net charge-offs in the reported period	(111)	39	(72)	(6)	(12)	(18)	(15)	(27)	(42)	(132)
Average balance of liabilities[1]	15,254	80,949	96,203	7,088	27,585	34,673	11,707	67,107	78,814	209,690
Of which: average balance of deposits from the public[1]	15,091	80,893	95,984	6,963	27,541	34,504	11,512	66,925	78,437	208,925
Balance of deposits from the public at the end of the reported period	15,878	84,533	100,411	6,745	27,534	34,279	10,455	68,192	78,647	213,337
Average balance of risk-adjusted assets[1][2]	30,176	43,264	73,440	25,523	24,879	50,402	53,271	63,372	116,643	240,485
Balance of risk-adjusted assets at the end of the reported period[2]	30,069	42,929	72,998	24,392	24,724	49,116	60,850	67,554	128,404	250,518
Average balance of assets under management[1][3]	-	45,412	45,412	-	28,478	28,478	-	111,292	111,292	185,182
Segmentation of net interest income:										
Spread from credit granting activity	617	1,365	1,982	442	409	851	721	786	1,507	4,340
Spread from deposit taking activity	131	752	883	50	172	222	70	246	316	1,421
Total net interest income	748	2,117	2,865	492	581	1,073	791	1,032	1,823	5,761

* Reclassified.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2022				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Interest income from externals	172	2,698	-	1	2,871
Interest expenses for externals	-	(1,972)	-	-	(1,972)
Net interest income:					
From externals	172	726	-	1	899
Inter-segmental	-	1,433	(37)	(15)	1,381
Total net interest income	172	2,159	(37)	(14)	2,280
Non-interest financing income:					
From externals	6,060	(5,416)	(123)	(6)	515
Inter-segmental	(5,728)	5,728	-	-	-
Fees and other income	-	112	-	38	150
Total non-interest income	332	424	(123)	32	665
Total income	504	2,583	(160)	18	2,945
Provision (income) for credit losses	-	35	-	-	35
Operating and other expenses:					
For externals	208	117	32	10	367
Inter-segmental	-	45	-	-	45
Total operating and other expenses	208	162	32	10	412
Profit (loss) before taxes	296	2,386	(192)	8	2,498
Provision for taxes (tax benefit) on profit (loss)	101	837	(66)	3	875
Profit (loss) after taxes	195	1,549	(126)	5	1,623
The Bank's share in profits of equity-basis investees	-	-	99	-	99
Net profit (loss) before attribution to non-controlling interests	195	1,549	(27)	5	1,722
Loss (profit) attributed to non-controlling interests	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	195	1,549	(27)	5	1,722

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2022				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Average balance of assets[1]	27,381	*232,858	5,296	1,558	*267,093
Of which: investments in equity-basis investees[1]	-	-	1,015	-	1,015
Average balance of liabilities[1]	14,867	60,011	-	774	75,652
Average balance of risk-adjusted assets[1][2]	7,079	11,236	4,216	-	22,531
Balance of risk-adjusted assets at the end of the reported period[2]	7,181	13,065	4,406	-	24,652
Average balance of assets under management[1][3]	-	-	-	94,048	94,048
Components of net interest income and non-interest income					
Net exchange-rate differences[4]	146	(74)	-	-	-
Net CPI differences[4]	-	1,349	-	-	-
Net interest exposures[4]	92	128	-	-	-
Net share exposures[4]	27	-	-	-	-
Interest spreads attributed to financial management	-	1,374	-	-	-
Total net interest income and non-interest income based on accrual base	265	2,777	-	-	-
Profits or losses from sale or other-than-temporary impairment of bonds	-	(128)	-	-	-
Change in gap between fair value and accrual base of derivative instruments recorded in profit and loss	-	(178)	-	-	-
Other non-interest income	239	112	-	-	-
Total net interest income and non-interest income	504	2,583	-	-	-

* Reclassified.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Including in respect of securities and derivative instruments.

Note 28 Supervisory Operating Segments (continued)

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2021				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Interest income from externals	5,237	14	2,150	1,015	1,892
Interest expenses for externals	(279)	(81)	(70)	(103)	(117)
Net interest income:					
From externals	4,958	(67)	2,080	912	1,775
Inter-segmental	(2,063)	112	(72)	(94)	(501)
Total net interest income	2,895	45	2,008	818	1,274
Non-interest income:					
Non-interest financing income (expenses)	3	-	14	11	49
Fees and other income	1,211	152	895	290	501
Total non-interest income	1,214	152	909	301	550
Total income	4,109	197	2,917	1,119	1,824
Provision (income) for credit losses	(651)	-	48	(184)	(457)
Operating and other expenses:					
For externals	3,562	181	1,836	403	587
Inter-segmental	-	-	-	-	-
Total operating and other expenses	3,562	181	1,836	403	587
Profit (loss) before taxes	1,198	16	1,033	900	1,694
Provision for taxes (tax benefit) on profit (loss)	439	6	383	346	655
Profit (loss) after taxes	759	10	650	554	1,039
The Bank's share in profits of equity-basis investees	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	759	10	650	554	1,039
Loss (profit) attributed to non-controlling interests	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	759	10	650	554	1,039

NIS millions

For the year ended December 31, 2021								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
24	728	-	11,060	(1)	498	127	624	11,684
(220)	(940)	-	(1,810)	-	(20)	(87)	(107)	(1,917)
(196)	(212)	-	9,250	(1)	478	40	517	9,767
261	2,368	-	11	2	(4)	(9)	(11)	-
65	2,156	-	9,261	1	474	31	506	9,767
44	985	-	1,106	-	(1)	(24)	(25)	1,081
101	112	244	3,506	(1)	30	9	38	3,544
145	1,097	244	4,612	(1)	29	(15)	13	4,625
210	3,253	244	13,873	-	503	16	519	14,392
(1)	-	-	(1,245)	-	25	-	25	(1,220)
143	358	176	7,246	216	238	103	557	7,803
-	45	(44)	1	-	-	(1)	(1)	-
143	403	132	7,247	216	238	102	556	7,803
68	2,850	112	7,871	(216)	240	(86)	(62)	7,809
24	983	43	2,879	1	107	(29)	79	2,958
44	1,867	69	4,992	(217)	133	(57)	(141)	4,851
-	49	-	49	-	-	-	-	49
44	1,916	69	5,041	(217)	133	(57)	(141)	4,900
-	11	-	11	-	-	3	3	14
44	1,927	69	5,052	(217)	133	(54)	(138)	4,914

Note 28 Supervisory Operating Segments (continued)

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2021				
	Activity in Israel				
	Households[4]	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Average balance of assets*[1]	136,771	604	54,352	33,334	76,363
Of which: investments in equity-basis investees[1]	-	-	-	-	-
Average balance of gross credit to the public*[1]	137,911	611	55,202	34,057	79,025
Balance of gross credit to the public at the end of the reported period	149,186	786	60,258	38,269	89,436
Balance of non-accruing debts and debts past due by 90 days or more	1,260	-	740	267	1,086
Balance of other problematic debts	27	-	418	588	1,548
Allowance for credit losses at the end of the reported period	1,355	6	1,160	832	2,796
Net charge-offs in the reported period	(26)	-	(131)	(91)	78
Average balance of liabilities[1]	157,332	33,837	85,772	31,757	67,162
Of which: average balance of deposits from the public[1]	157,324	33,837	85,646	31,657	66,999
Balance of deposits from the public at the end of the reported period	156,777	33,897	94,920	33,579	84,106
Average balance of risk-adjusted assets[1][2]	97,073	1,162	68,911	48,043	101,058
Balance of risk-adjusted assets at the end of the reported period[2]	101,598	1,106	74,161	52,580	111,900
Average balance of assets under management[1][3]	68,084	51,605	40,912	23,474	93,272
Segmentation of net interest income:					
Spread from credit granting activity	2,685	6	1,922	790	1,229
Spread from deposit taking activity	210	39	86	28	45
Other	-	-	-	-	-
Total net interest income	2,895	45	2,008	818	1,274

* Reclassified.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Includes housing loans in the amount of NIS 20.6 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

NIS millions

For the year ended December 31, 2021								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
3,530	248,208	215	553,377	-	14,326	11,987	26,313	579,690
-	650	-	650	-	-	-	-	650
3,200	-	-	310,006	-	14,744	-	14,744	324,750
4,164	-	-	342,099	-	15,630	-	15,630	357,729
-	-	-	3,353	26	917	-	943	4,296
-	-	-	2,581	-	1,219	-	1,219	3,800
10	14	-	6,173	-	282	-	282	6,455
-	-	-	(170)	-	(28)	-	(28)	(198)
83,549	58,856	13	518,278	90	8,856	11,108	20,054	538,332
83,507	-	-	458,970	1	8,706	10,488	19,195	478,165
101,287	-	-	504,566	1	9,101	11,404	20,506	525,072
6,400	20,186	5,183	348,016	138	19,271	185	19,594	367,610
2,760	20,892	4,837	369,834	76	20,240	130	20,446	390,280
365,482	68,667	4,351	715,847	-	-	-	-	715,847
9	*-	-	*6,641	1	463	-	*464	*7,105
47	*-	-	*455	-	11	-	*11	*466
9	*2,156	-	*2,165	-	-	31	*31	*2,196
65	2,156	-	9,261	1	474	31	506	9,767

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2021								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Interest income from externals	3,507	15	1,715	5,237	9	-	5	14	5,251
Interest expenses for externals	-	-	(279)	(279)	-	-	(81)	(81)	(360)
Net interest income:									
From externals	3,507	15	1,436	4,958	9	-	(76)	(67)	4,891
Inter-segmental	(2,349)	(1)	287	(2,063)	(6)	-	118	112	(1,951)
Total net interest income	1,158	14	1,723	2,895	3	-	42	45	2,940
Non-interest income:									
Non-interest financing income (expenses)	-	-	3	3	-	-	-	-	3
Fees and other income	53	199	959	1,211	-	3	149	152	1,363
Total non-interest income	53	199	962	1,214	-	3	149	152	1,366
Total income	1,211	213	2,685	4,109	3	3	191	197	4,306
Provision (income) for credit losses	(226)	-	(425)	(651)	-	-	-	-	(651)
Operating and other expenses:									
For externals	390	159	3,013	3,562	-	1	180	181	3,743
Inter-segmental	-	-	-	-	-	-	-	-	-
Total operating and other expenses	390	159	3,013	3,562	-	1	180	181	3,743
Profit (loss) before taxes	1,047	54	97	1,198	3	2	11	16	1,214
Provision for taxes (tax benefit) on profit (loss)	384	19	36	439	1	1	4	6	445
Net profit (loss) attributed to shareholders of the Bank	663	35	61	759	2	1	7	10	769

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2021								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Average balance of assets*[1]	104,831	3,725	28,215	136,771	330	99	175	604	137,375
Average balance of gross credit to the public*[1]	105,460	3,725	28,726	137,911	332	99	180	611	138,522
Balance of gross credit to the public at the end of the reported period*	114,690	4,686	29,810	149,186	437	152	197	786	149,972
Balance of non-accruing debts and debts past due by 90 days or more	569	-	691	1,260	-	-	-	-	1,260
Balance of other problematic debts	-	-	27	27	-	-	-	-	27
Allowance for credit losses at the end of the reported period	450	-	905	1,355	-	-	6	6	1,361
Net charge-offs in the reported period	(1)	-	(25)	(26)	-	-	-	-	(26)
Average balance of liabilities[1]	-	-	157,332	157,332	-	-	33,837	33,837	191,169
Of which: average balance of deposits from the public[1]	-	-	157,324	157,324	-	-	33,837	33,837	191,161
Balance of deposits from the public at the end of the reported period	-	-	156,777	156,777	-	-	33,897	33,897	190,674
Average balance of risk-adjusted assets[1][2]	60,832	4,395	31,846	97,073	176	163	823	1,162	98,235
Balance of risk-adjusted assets at the end of the reported period[2]	65,494	4,192	31,912	101,598	232	161	713	1,106	102,704
Average balance of assets under management[1][3]	-	-	68,084	68,084	-	-	51,605	51,605	119,689
Segmentation of net interest income:									
Spread from credit granting activity	1,158	14	1,513	2,685	3	-	3	6	2,691
Spread from deposit taking activity	-	-	210	210	-	-	39	39	249
Total net interest income	1,158	14	1,723	2,895	3	-	42	45	2,940

* Reclassified.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Includes housing loans in the amount of NIS 20.6 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2021									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Interest income from externals	714	1,436	2,150	517	498	1,015	696	1,196	1,892	5,057
Interest expenses for externals	(8)	(62)	(70)	(3)	(100)	(103)	(4)	(113)	(117)	(290)
Net interest income:										
From externals	706	1,374	2,080	514	398	912	692	1,083	1,775	4,767
Inter-segmental	(81)	9	(72)	(101)	7	(94)	(154)	(347)	(501)	(667)
Total net interest income	625	1,383	2,008	413	405	818	538	736	1,274	4,100
Non-interest income:										
Non-interest financing income (expenses)	-	14	14	-	11	11	6	43	49	74
Fees and other income	210	685	895	155	135	290	230	271	501	1,686
Total non-interest income	210	699	909	155	146	301	236	314	550	1,760
Of which: income from credit cards	-	67	67	-	4	4	-	2	2	73
Total income	835	2,082	2,917	568	551	1,119	774	1,050	1,824	5,860
Provision (income) for credit losses	85	(37)	48	(107)	(77)	(184)	(42)	(415)	(457)	(593)
Operating and other expenses:										
For externals	385	1,451	1,836	176	227	403	218	369	587	2,826
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	385	1,451	1,836	176	227	403	218	369	587	2,826
Profit (loss) before taxes	365	668	1,033	499	401	900	598	1,096	1,694	3,627
Provision for taxes (tax benefit) on profit (loss)	136	247	383	192	154	346	230	425	655	1,384
Net profit (loss) attributed to shareholders of the Bank	229	421	650	307	247	554	368	671	1,039	2,243

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2021									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Average balance of assets*[1]	19,128	35,224	54,352	16,141	17,193	33,334	27,104	49,259	76,363	164,049
Average balance of gross credit to the public*[1]	19,359	35,843	55,202	16,439	17,618	34,057	27,438	51,587	79,025	168,284
Balance of gross credit to the public at the end of the reported period	20,804	39,454	60,258	19,084	19,185	38,269	34,002	55,434	89,436	187,963
Balance of non-accruing debts and debts past due by 90 days or more	252	488	740	189	78	267	600	486	1,086	2,093
Balance of other problematic debts	107	311	418	111	477	588	14	1,534	1,548	2,554
Allowance for credit losses at the end of the reported period	364	796	1,160	393	439	832	657	2,139	2,796	4,788
Net charge-offs in the reported period	(112)	(19)	(131)	(119)	28	(91)	2	76	78	(144)
Average balance of liabilities[1]	13,303	72,469	85,772	5,421	26,336	31,757	10,138	57,024	67,162	184,691
Of which: average balance of deposits from the public[1]	13,205	72,441	85,646	5,340	26,317	31,657	10,036	56,963	66,999	184,302
Balance of deposits from the public at the end of the reported period	14,724	80,196	94,920	6,777	26,802	33,579	11,310	72,796	84,106	212,605
Average balance of risk-adjusted assets[1][2]	29,190	39,721	68,911	26,257	21,786	48,043	43,175	57,883	101,058	218,012
Balance of risk-adjusted assets at the end of the reported period[2]	30,824	43,337	74,161	28,783	23,797	52,580	49,678	62,222	111,900	238,641
Average balance of assets under management[1][3]	-	40,912	40,912	-	23,474	23,474	-	93,272	93,272	157,658
Segmentation of net interest income:										
Spread from credit granting activity	612	1,310	1,922	408	382	790	531	698	1,229	3,941
Spread from deposit taking activity	13	73	86	5	23	28	7	38	45	159
Total net interest income	625	1,383	2,008	413	405	818	538	736	1,274	4,100

* Reclassified.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2021				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Interest income from externals	6	722	-	-	728
Interest expenses for externals	-	(940)	-	-	(940)
Net interest income:					
From externals	6	(218)	-	-	(212)
Inter-segmental	-	2,372	(1)	(3)	2,368
Total net interest income	6	2,154	(1)	(3)	2,156
Non-interest financing income:					
From externals	(1,785)	2,171	599	-	985
Inter-segmental	2,137	(2,137)	-	-	-
Fees and other income	-	69	-	43	112
Total non-interest income	352	103	599	43	1,097
Total income	358	2,257	598	40	3,253
Provision (income) for credit losses	-	-	-	-	-
Operating and other expenses:					
For externals	204	71	32	51	358
Inter-segmental	-	45	-	-	45
Total operating and other expenses	204	116	32	51	403
Profit (loss) before taxes	154	2,141	566	(11)	2,850
Provision for taxes (tax benefit) on profit (loss)	53	740	194	(4)	983
Profit (loss) after taxes	101	1,401	372	(7)	1,867
The Bank's share in profits of equity-basis investees	-	-	49	-	49
Net profit (loss) before attribution to non-controlling interests	101	1,401	421	(7)	1,916
Loss (profit) attributed to non-controlling interests	-	11	-	-	11
Net profit (loss) attributed to shareholders of the Bank	101	1,412	421	(7)	1,927

Note 28 Supervisory Operating Segments (continued)

NIS millions

Information regarding supervisory operating segments (continued)

	For the year ended December 31, 2021				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Average balance of assets[1]	16,083	*226,535	4,053	1,537	*248,208
Of which: investments in equity-basis investees[1]	-	-	650	-	650
Average balance of liabilities[1]	10,216	47,797	-	843	58,856
Average balance of risk-adjusted assets[1][2]	6,691	10,076	3,419	-	20,186
Balance of risk-adjusted assets at the end of the reported period[2]	7,030	9,883	3,979	-	20,892
Average balance of assets under management[1][3]	-	-	-	68,667	68,667
Components of net interest income and non-interest income					
Net exchange-rate differences[4]	66	36	-	-	-
Net CPI differences[4]	-	405	-	-	-
Net interest exposures[4]	107	499	-	-	-
Net share exposures[4]	24	-	-	-	-
Interest spreads attributed to financial management	-	997	-	-	-
Total net interest income and non-interest income based on accrual base	197	1,937	-	-	-
Profits or losses from sale or other-than-temporary impairment of bonds	-	256	-	-	-
Change in gap between fair value and accrual base of derivative instruments recorded in profit and loss	-	(5)	-	-	-
Other non-interest income	161	69	-	-	-
Total net interest income and non-interest income	358	2,257	-	-	-

* Reclassified.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Including in respect of securities and derivative instruments.

Note 28A Operating Segments Based on the Management Approach

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into operating segments according to the management approach is based on types of products and services or on types of customers. The chief operating decision makers of the Bank (the Board of Management of the Bank and the Board of Directors) use this division to make decisions and to analyze the Group's business results.

Assignment of customers to segments based on the management approach

Customers' assignments to the operating segments are based on the actual assignment of customers to the organizational units that serve them, which is performed in accordance with the criteria described below. However, it is clarified that customer assignments occasionally take additional criteria into consideration, as in the case of a private customer or a company with a profile or potential for future activity that justifies an assignment to the Private Customer Segment or to the Corporate Segment, as relevant. In assigning a business client to an organizational unit, the client's association with a group of companies is also taken into consideration.

The following reportable segments have been identified by the Bank, in accordance with the management approach:

Retail activity

Private Customer Segment – Customers included in this segment are private customers to whom the Bank provides a range of banking services and financial products, including activity using the Bit payment app and investment advising services.

Small Business Segment – Provides a range of banking services to business customers with total indebtedness (to the Bank or to other lenders) of less than NIS 10 million, or total indebtedness (to the Bank or to other lenders) of more than NIS 10 million but indebtedness to the Bank of less than NIS 6 million and annual revenue of less than NIS 30 million.

Housing Loan Segment – This segment is responsible for providing housing credit services to retail customers.

Business activity

Commercial Segment – This segment includes business customers with total indebtedness (to the Bank or to other lenders) of more than NIS 10 million, up to a total of NIS 100 million; or annual revenue of over NIS 30 million, up to NIS 1 billion. Customers in the construction and real-estate sector included in this segment are customers with total indebtedness higher than NIS 10 million, up to a total of NIS 350 million; or a total credit balance of NIS 150 million or less.

Corporate Segment – Provides financial services to large corporations in Israel and overseas with total indebtedness of NIS 250 million or more, or annual revenue of over NIS 1 billion. Customers in the construction and real-estate sector included in this segment are customers with total indebtedness of NIS 550 million or more, or a total credit balance of NIS 250 million or more.

Note 28A Operating Segments Based on the Management Approach (continued)

Groups with total indebtedness of NIS 100 million to NIS 250 million, and groups in the construction and real-estate sector with total indebtedness of NIS 350 million to NIS 550 million, or total credit balances of NIS 150 million to NIS 250 million, are assigned either to the Corporate Segment or to the Commercial Segment, depending on various parameters examined individually for each group.

International Activity Segment – Includes the activities of the overseas offices of the Bank, including the New York branch, Hapoalim Switzerland, and Bank Pozitif.

Financial Management Segment – Responsible for the management of the Bank's assets and liabilities, management of financial capital, management of the nostro activity of the Bank, activity of the dealing rooms (foreign currency and securities), contact and administration of activity with financial entities (in Israel and overseas), and provision of operational services to financial-asset managers and operational services in securities to all customers of the Bank. The results of operations of this segment include, among other matters, the effect of the financial capital attributed to the segment. The results of Poalim Equity are also included in this segment.

The segment is responsible for the management of market and liquidity risks, performed through proactive management of the nostro portfolio and through the use of financial instruments, such as issuance of various securities, deposits, interest and foreign-currency derivatives, and more.

Adjustments – Includes adjustments between total items attributed to the segments and total items in the consolidated financial statements, and other activities of the Bank Group, each of which does not form a reportable segment, including the results of operations of Diur B.P. Ltd. and Peilim Investment Portfolio Management Ltd.

Rules for the distribution of results of operations among the segments

The following are the main rules applied in dividing the results of operations among the different segments:

Net interest income – Includes, among other things: (1) the spread between the interest rate received from the segment's customers and the wholesale interest rate which the segment is charged in respect of the resource used to provide the loan to the customer; (2) the spread between the wholesale interest rate at which the segment is credited in respect of resources which it makes available to the Bank, and the interest rate paid to the segment's customers in respect of such resources.

Wholesale rates in each operating segment of the Bank are determined based on the Bank's estimated funding costs, and primarily consist of the risk-free interest rate plus estimates of the credit and liquidity risks of the Bank. This rate is calculated based on the contractual term of the relevant assets and liabilities, without taking into consideration assumptions with regard to renewal and term extensions of credit and deposits.

Provision for credit losses – A provision for credit losses is charged to the segment to which the borrower against whose debt the provision is recorded belongs.

Note 28A Operating Segments Based on the Management Approach (continued)

Non-interest financing income – Attributed to the segment to which the customer belongs. Income recorded in the Financial Management Segment includes income from realization and adjustment to fair value of bonds, profits from investment in shares, results of activity in derivative instruments, net profit from exchange-rate differences, and financing expenses arising from hedging of investments overseas. Income recorded in the other segments includes profits from the dealing room.

Fees and other income – Attributed to the segment to which the customer belongs.

Operating and other expenses – Expenses are attributed to each operating segment according to predetermined rules and standard prices, either as an expense identified directly with the activity of the segment, or according to charging formulas. Attribution rules are based on the volumes of activity relevant to the types of costs in each segment.

Debiting for inter-segmental services – The assigned segment of a customer receiving services from another segment is charged with an inter-segmental expense, based on standard prices for services provided by other segments to its customers. The costs of the segment providing the service are reduced accordingly, and the costs are concurrently charged to the segment to which the customer belongs. The charge is determined by the Bank based, among other factors, on market prices for the service, internal cost estimates, and participation in income derived directly or indirectly from the said service.

Taxes on income – The provision for tax on the results of operation of each segment was calculated according to the annual effective tax rate, taking into consideration the tax effects applicable to certain segments, as follows: (1) effects of translation differences in respect of consolidated companies overseas – attributed to the Financial Management Segment; (2) expenses not recognized for tax purposes are attributed to the relevant segment; when no specific attribution of the expenses is possible, the expenses are allocated to the segments proportionally; (3) effect of changes in the tax rate – attributed to the Others and Adjustments Segment; (4) tax expenses of subsidiaries, including tax supplementation performed at the Bank – attributed to the segment to which the company is assigned.

Note 28A Operating Segments Based on the Management Approach (continued)

NIS millions

A. Information regarding operating segments

	For the year ended December 31, 2023								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate[1]	International activity	Financial management[2]	Adjustments[3]	Total
Net interest income:									
From externals	**(2,171)**	**1,375**	**6,420**	**2,385**	**4,142**	**726**	**3,208**	**-**	**16,085**
Inter-segmental	**8,856**	**1,430**	**(5,009)**	**(446)**	**(1,699)**	**89**	**(3,221)**	**-**	**-**
Non-interest financing income (expenses)	**8**	**5**	**(56)**	**(34)**	**71**	**(1)**	**1,274**	**-**	**1,267**
Total net financing profit	**6,693**	**2,810**	**1,355**	**1,905**	**2,514**	**814**	**1,261**	**-**	**17,352**
Fees and other income	**1,571**	**661**	**46**	**544**	**842**	**40**	**139**	**187**	**4,030**
Total income	**8,264**	**3,471**	**1,401**	**2,449**	**3,356**	**854**	**1,400**	**187**	**21,382**
Provision (income) for credit losses	**397**	**393**	**121**	**881**	**3**	**88**	**(4)**	**-**	**1,879**
Operating and other expenses:									
From externals	**3,822**	**1,285**	**491**	**580**	**659**	**447**	**845**	**102**	**8,231**
Inter-segmental	**132**	**85**	**(5)**	**45**	**141**	**-**	**(349)**	**(49)**	**-**
Profit (loss) before taxes	**3,913**	**1,708**	**794**	**943**	**2,553**	**319**	**908**	**134**	**11,272**
Provision for taxes on profit (loss)	**1,357**	**592**	**273**	**334**	**910**	**141**	**276**	**47**	**3,930**
Profit (loss) after taxes	**2,556**	**1,116**	**521**	**609**	**1,643**	**178**	**632**	**87**	**7,342**
The Bank's share in profits of equity-basis investees, after taxes	**-**	**-**	**-**	**-**	**-**	**-**	**18**	**-**	**18**
Net profit (loss):									
Before attribution to non-controlling interests	**2,556**	**1,116**	**521**	**609**	**1,643**	**178**	**650**	**87**	**7,360**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Attributed to shareholders of the Bank	**2,556**	**1,116**	**521**	**609**	**1,643**	**178**	**650**	**87**	**7,360**
Net credit to the public at the end of the reported period	**37,663**	**32,729**	**131,057**	**59,300**	**123,994**	**18,072**	**4,566**	**-**	**407,381**
Deposits from the public at the end of the reported period	**250,792**	**70,395**	**-**	**46,369**	**94,775**	**29,129**	**63,135**	**-**	**554,595**

(1) Includes the balance of credit in respect of borrowing and lending activity and in respect of limiting of exposure in derivatives in the amount of approximately NIS 15,114 million.
(2) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory operating segments as a separate segment.
(3) This section includes the results of activities of the Bank Group with immaterial volumes, each of which does not constitute a reportable segment.

Note 28A Operating Segments Based on the Management Approach (continued)

A. Information regarding operating segments (continued)

Net interest income:	
From externals	
Inter-segmental	
Non-interest financing income (expenses)	
Total net financing profit	
Fees and other income	
Total income	
Provision (income) for credit losses	
Operating and other expenses:	
From externals	
Inter-segmental	
Profit (loss) before taxes	
Provision for taxes on profit (loss)	
Profit (loss) after taxes	
The Bank's share in profits of equity-basis investees, after taxes	
Net profit (loss):	
Before attribution to non-controlling interests	
Attributed to non-controlling interests	
Attributed to shareholders of the Bank	
Net credit to the public at the end of the reported period	
Deposits from the public at the end of the reported period	

* Reclassified.

(1) Includes the balance of credit in respect of borrowing and lending activity and in respect of limiting of exposure in derivatives in the amount of approximately NIS 10,882 million.

(2) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory operating segments as a separate segment.

(3) This section includes the results of activities of the Bank Group with immaterial volumes, each of which does not constitute a reportable segment.

NIS millions

	For the year ended December 31, 2022								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate[1]	International activity	Financial management[2]	Adjustments[3]	Total
	1,015	1,551	5,481	1,801	2,845	653	121	-	13,467
	2,563	358	(4,115)	(196)	(838)	27	2,201	-	-
	7	6	(3)	(23)	52	(2)	544	-	581
	3,585	1,915	1,363	1,582	2,059	678	2,866	-	14,048
	1,594	635	47	486	686	32	163	229	3,872
	5,179	2,550	1,410	2,068	2,745	710	3,029	229	17,920
	23	104	71	76	(421)	107	6	-	(34)
	3,680	1,263	464	542	669	428	815	111	7,972
	147	82	(10)	46	122	-	(341)	(46)	-
	1,329	1,101	885	1,404	2,375	175	2,549	164	9,982
	464	382	307	505	853	84	875	78	3,548
	865	719	578	899	1,522	91	1,674	86	6,434
	-	-	-	-	-	-	99	-	99
	865	719	578	899	1,522	91	1,773	86	6,533
	-	-	-	-	-	(1)	-	-	(1)
	865	719	578	899	1,522	90	1,773	86	6,532
	*38,880	34,998	127,688	57,945	108,316	17,210	*3,690	-	388,727
	238,333	70,243	-	51,425	75,585	24,767	72,235	-	532,588

Note 28A Operating Segments Based on the Management Approach (continued)

A. Information regarding operating segments (continued)

Net interest income:	
From externals	
Inter-segmental	
Non-interest financing income (expenses)	
Total net financing profit	
Fees and other income	
Total income	
Provision (income) for credit losses	
Operating and other expenses:	
From externals	
Inter-segmental	
Profit (loss) before taxes	
Provision for taxes on profit (loss)	
Profit (loss) after taxes	
The Bank's share in profits of equity-basis investees, after taxes	
Net profit (loss):	
Before attribution to non-controlling interests	
Attributed to non-controlling interests	
Attributed to shareholders of the Bank	
Net credit to the public at the end of the reported period	
Deposits from the public at the end of the reported period	

* Reclassified.

(1) Includes the balance of credit in respect of borrowing and lending activity and in respect of limiting of exposure in derivatives in the amount of approximately NIS 8,532 million.

(2) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory operating segments as a separate segment.

(3) This section includes the results of activities of the Bank Group with immaterial volumes, each of which does not constitute a reportable segment.

NIS millions

	For the year ended December 31, 2021								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate[1]	International activity	Financial management[2]	Adjustments[3]	Total
	1,517	1,293	3,516	1,366	2,003	458	(386)	-	9,767
	449	(7)	(2,356)	(155)	(475)	10	2,534	-	-
	6	4	-	13	86	(37)	1,009	-	1,081
	1,972	1,290	1,160	1,224	1,614	431	3,157	-	10,848
	1,476	570	54	446	594	32	140	232	3,544
	3,448	1,860	1,214	1,670	2,208	463	3,297	232	14,392
	(403)	(79)	(226)	30	(564)	25	(3)	-	(1,220)
	3,663	969	525	501	658	530	784	173	7,803
	63	323	(135)	57	42	-	(304)	(46)	-
	125	647	1,050	1,082	2,072	(92)	2,820	105	7,809
	46	235	382	410	783	73	981	48	2,958
	79	412	668	672	1,289	(165)	1,839	57	4,851
	-	-	-	-	-	-	49	-	49
	79	412	668	672	1,289	(165)	1,888	57	4,900
	-	-	-	-	-	7	7	-	14
	79	412	668	672	1,289	(158)	1,895	57	4,914
	*39,586	33,899	114,633	52,758	96,335	13,946	*1,466	-	352,623
	225,824	66,102	-	49,442	85,304	20,277	78,123	-	525,072

Note 28A Operating Segments Based on the Management Approach (continued)

NIS millions

B. Information regarding geographical segments[1]

	For the year ended December 31			For the year ended December 31			December 31	
	2023	2022	2021	**2023**	2022	2021	**2023**	2022
	Income[2]			Net profit (loss) attributed to shareholders of the Bank			Total assets	
Israel	**20,528**	17,210	13,929	**7,183**	6,443	5,073	**651,114**	630,171
North America	**849**	692	462	**241**	178	78	**34,413**	34,031
Europe	**5**	18	1	**(63)**	(88)	(236)	**913**	1,064
Other	**-**	-	-	**(1)**	(1)	(1)	**90**	87
Total outside Israel	**854**	710	463	**177**	89	(159)	**35,416**	35,182
Total consolidated	**21,382**	17,920	14,392	**7,360**	6,532	4,914	**686,530**	665,353

(1) The division into geographical segments was performed according to the location of the assets.
(2) Income: net interest income and non-interest financing income.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses

NIS millions

The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022, prospectively.

A. Debts, bonds held to maturity, bonds available for sale, and off-balance sheet credit instruments

1. Change in allowance for credit losses

	2023					
	Credit to the public				Banks, governments, and bonds	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	**5,019**	**519**	**928**	**6,466**	**50**	**6,516**
Provision (income) for credit losses	**1,389**	**117**	**379**	**1,885**	**(6)**	**1,879**
Charge-offs	**(534)**	**(27)**	**(550)**	**(1,111)**	**-**	**(1,111)**
Recoveries of debts charged off in previous years	**356**	**19**	**355**	**730**	**-**	**730**
Net charge-offs	**(178)**	**(8)**	**(195)**	**(381)**	**-**	**(381)**
Other*	**(25)**	**-**	**-**	**(25)**	**-**	**(25)**
Allowance for credit losses at year end[(1)]	**6,205**	**628**	**1,112**	**7,945**	**44**	**7,989**
(1) Of which: in respect of off-balance sheet credit instruments	**884**	**35**	**32**	**951**	**5**	**956**

	2022					
	Credit to the public				Banks, governments, and bonds	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	4,744	533	626	5,903	6	5,909
Adjustment of opening balance of allowance for CECL	336	(83)	285	538	8	546
Provision (income) for credit losses	(181)	71	40	(70)	36	(34)
Charge-offs	(364)	(6)	(384)	(754)	-	(754)
Recoveries of debts charged off in previous years	484	4	361	849	-	849
Net charge-offs	120	(2)	(23)	95	-	95
Allowance for credit losses at year end[(1)]	5,019	519	928	6,466	50	6,516
(1) Of which: in respect of off-balance sheet credit instruments	868	32	31	931	4	935

* Net asset balances in respect of a subsidiary that has been sold.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

A. Debts, bonds held to maturity, bonds available for sale, and off-balance sheet credit instruments (continued)

1. Change in allowance for credit losses (continued)

	2021					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	5,142	758	1,026	6,926	5	6,931
Provision (income) for credit losses	(570)	(226)	(425)	(1,221)	1	(1,220)
Charge-offs	(479)	(4)	(341)	(824)	-	(824)
Recoveries of debts charged off in previous years	651	5	366	1,022	-	1,022
Net charge-offs	172	1	25	198	-	198
Allowance for credit losses at year end[(1)]	4,744	533	626	5,903	6	5,909
(1) Of which: in respect of off-balance sheet credit instruments	766	-	31	797	-	797

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

A. Debts, bonds held to maturity, bonds available for sale, and off-balance sheet credit instruments (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts, bonds held to maturity, and bonds available for sale

	December 31, 2023					
	Credit to the public				Banks, governments, and bonds	Total
	Commercial*	Housing	Other private	Total		
Recorded debt balance of debts:						
Examined on an individual basis	**219,221**	**-**	**-**	**219,221**	**106,933**	**326,154**
Examined on a collective basis	**28,907**	**131,563**	**34,684**	**195,154**	**15,736**	**210,890**
Total debts	**248,128**	**131,563**	**34,684**	**414,375**	**122,669**	**537,044**
Allowance for credit losses in respect of debts:						
Examined on an individual basis	**4,658**	**-**	**-**	**4,658**	**25**	**4,683**
Examined on a collective basis	**663**	**593**	**1,080**	**2,336**	**14**	**2,350**
Total allowance for credit losses	**5,321**	**593**	**1,080**	**6,994**	**39**	**7,033**

	December 31, 2022					
	Credit to the public				Banks, governments, and bonds	Total
	Commercial*	Housing	Other private	Total		
Recorded debt balance of debts:						
Examined on an individual basis	201,052	-	-	201,052	103,377	304,429
Examined on a collective basis	29,973	128,105	35,132	193,210	10,116	203,326
Total debts	231,025	128,105	35,132	394,262	113,493	507,755
Allowance for credit losses in respect of debts:						
Examined on an individual basis	3,634	-	-	3,634	29	3,663
Examined on a collective basis	517	487	897	1,901	17	1,918
Total allowance for credit losses	4,151	487	897	5,535	46	5,581

* The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 87 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2022: NIS 72 million).

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public

1. Credit quality and past-due status

	December 31, 2023					
	Nonproblematic	Problematic[1]		Total	Accruing debts – additional information	
		Accruing	Non-accruing		Past due by 90 days or more	Past due by 30 to 89 days[2]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	**50,350**	**934**	**612**	**51,896**	**24**	**19**
Construction and real estate – real-estate activities	**33,440**	**584**	**40**	**34,064**	**157**	**45**
Financial services	**33,532**	**8**	**6**	**33,546**	**2**	**1**
Commercial – other	**96,133**	**1,407**	**1,885**	**99,425**	**50**	**78**
Total commercial	**213,455**	**2,933**	**2,543**	**218,931**	**233**	**143**
Private individuals – housing loans[3]	**130,175**	**-**	**747**	**130,922**	**-**	**877**
Private individuals – other	**33,901**	**466**	**222**	**34,589**	**87**	**151**
Total public – activity in Israel	**377,531**	**3,399**	**3,512**	**384,442**	**320**	**1,171**
Borrower activity outside Israel						
Public – commercial						
Construction and real estate	**9,373**	**686**	**298**	**10,357**	**-**	**-**
Commercial – other	**18,354**	**292**	**194**	**18,840**	**76**	**-**
Total commercial	**27,727**	**978**	**492**	**29,197**	**76**	**-**
Private individuals	**727**	**1**	**8**	**736**	**-**	**18**
Total public – activity overseas	**28,454**	**979**	**500**	**29,933**	**76**	**18**
Total public	**405,985**	**4,378**	**4,012**	**414,375**	**396**	**1,189**

(1) Non-accruing, substandard, or special mention credit risk.
(2) Debts past due by 30 to 89 days in the amount of approximately NIS 154 million (December 31, 2022: NIS 79 million) were classified as problematic debts.
(3) Includes a balance of housing loans arranged in a settlement with the borrower, in the amount of approximately NIS 54 million (December 31, 2022: NIS 54 million).

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

1. Credit quality and past-due status (continued)

	December 31, 2022					
	Nonproblematic	Problematic[1]		Total	Accruing debts – additional information	
		Accruing	Non-accruing		Past due by 90 days or more	Past due by 30 to 89 days[2]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	46,787	149	216	47,152	7	19
Construction and real estate – real-estate activities	30,745	36	63	30,844	1	13
Financial services	27,656	6	22	27,684	2	1
Commercial – other	95,195	1,205	1,717	98,117	29	63
Total commercial	200,383	1,396	2,018	203,797	39	96
Private individuals – housing loans[3]	126,955	-	572	127,527	-	1,085
Private individuals – other	34,387	457	210	35,054	43	113
Total public – activity in Israel	361,725	1,853	2,800	366,378	82	1,294
Borrower activity outside Israel						
Public – commercial						
Construction and real estate	8,959	264	558	9,781	-	-
Commercial – other	16,515	855	77	17,447	-	-
Total commercial	25,474	1,119	635	27,228	-	-
Private individuals	646	1	9	656	1	10
Total public – activity overseas	26,120	1,120	644	27,884	1	10
Total public	387,845	2,973	3,444	394,262	83	1,304

(1) Non-accruing, substandard, or special mention credit risk.
(2) Debts past due by 30 to 89 days in the amount of approximately NIS 154 million (December 31, 2022: NIS 79 million) were classified as problematic debts.
(3) Includes a balance of housing loans arranged in a settlement with the borrower, in the amount of approximately NIS 54 million (December 31, 2022: NIS 54 million).

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Credit quality – past-due status of debts

The status of past-due debts is monitored routinely, and serves as one of the key indicators of credit quality. The status of past-due debts is determined based on actual days past due. Debts are treated as nonperforming debts (debts not accruing interest income) after 90 days past due, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days past due relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the past-due status affects the classification of the debt (the classification is more severe for debts that are further past due); debts are charged off by the Bank after 150 days past due.

Concessions and troubled debt restructuring

The policy of the Bank regarding concessions takes a range of factors into account in order to maximize repayment to the Bank: management of the relationship with the customer, maximization of opportunities, prevention of default, foreclosures, public aspects, etc.

Concessions are granted in cases where customers have demonstrated the intention to repay the loans and are expected to meet their obligations.

In cases where, for economic or legal reasons related to financial difficulties of the borrower, the Bank grants a concession to a debtor that it would not grant under other conditions, the debt is considered a troubled debt restructuring.

Troubled debt restructuring may constitute a change in the terms of the debt, leading to reduction or postponement of cash payments required of the debtor in the near future; a reduction of the rate of interest; a reduction of payments on principal; consolidation of debts; etc.

The Bank can accept assets or an interest in the equity capital of the debtor, in cash, as repayment of the debt, even if the value obtained is lower than the amount of the debt, if the Bank reaches the conclusion that this would maximize the recovery of its investment.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

2. Credit quality by year in which the credit was granted

	December 31, 2023							
	Recorded debt balance of fixed-term credit to the public granted in the year						Recorded debt balance of revolving loans*	Total
	2023	2022	2021	2020	2019	Previous		
Borrower activity in Israel								
Public – commercial								
Construction and real estate – total	32,270	6,416	7,777	2,848	1,775	2,848	32,026	85,960
Credit at credit execution rating	31,104	6,045	7,177	2,690	1,581	2,655	31,508	82,760
Nonproblematic credit not at credit execution rating	451	141	84	95	18	22	219	1,030
Accruing problematic credit	638	184	145	45	157	145	204	1,518
Non-accruing credit	77	46	371	18	19	26	95	652
Commercial – other – total	53,209	14,358	13,959	5,909	3,453	8,181	33,902	132,971
Credit at credit execution rating	51,698	12,950	13,129	5,445	3,176	7,415	32,105	125,918
Nonproblematic credit not at credit execution rating	1,155	760	420	205	73	91	1,043	3,747
Accruing problematic credit	219	75	245	189	33	101	553	1,415
Non-accruing credit	137	573	165	70	171	574	201	1,891
Private individuals – housing loans – total	14,002	22,383	25,644	17,089	12,581	39,223	-	130,922
LTV up to 60%**	8,104	13,041	15,064	9,724	7,513	26,251	-	79,697
LTV over 60% up to 75%**	5,662	9,069	10,107	7,084	4,897	11,418	-	48,237
LTV over 75%**	236	273	473	281	171	1,554	-	2,988
Credit not past due at credit execution rating	13,914	22,196	25,392	16,834	12,380	38,256	-	128,972
Credit not past due not at credit execution rating	23	15	40	24	22	202	-	326
Past due by 89-30 days	47	122	132	129	98	349	-	877
Past due by 90 days or more	-	-	-	-	-	-	-	-
Non-accruing credit	18	50	80	102	81	416	-	747
Private individuals – other – total	18,559	6,986	3,715	1,346	695	691	2,597	34,589
Credit not past due at credit execution rating	17,546	6,151	3,177	1,142	551	401	2,091	31,059
Credit not past due not at credit execution rating	917	730	460	170	118	234	441	3,070
Past due by 89-30 days	34	34	21	8	6	9	39	151
Past due by 90 days or more	20	21	12	4	2	5	23	87
Non-accruing credit	42	50	45	22	18	42	3	222
Total credit to the public – activity in Israel	118,040	50,143	51,095	27,192	18,504	50,943	68,525	384,442
Borrower activity outside Israel								
Total credit to the public – activity overseas	12,684	10,189	2,041	544	504	999	2,972	29,933
Nonproblematic credit	11,897	9,957	1,979	442	470	821	2,888	28,454
Accruing problematic credit	605	216	16	16	33	9	84	979
Non-accruing credit	182	16	46	86	1	169	-	500
Total credit to the public	130,724	60,332	53,136	27,736	19,008	51,942	71,497	414,375

* As at December 31, 2023, there are no revolving loans converted into fixed-term loans.

** Ratio of the approved credit facility, when the facility was granted, to the value of the asset, as approved by the Bank when the facility was granted.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

2. Credit quality by year in which the credit was granted (continued)

	December 31, 2022							
	Recorded debt balance of fixed-term credit to the public granted in the year						Recorded debt balance of revolving loans*	Total
	2022	2021	2020	2019	2018	Previous		
Borrower activity in Israel								
Public – commercial								
Construction and real estate – total	33,108	12,289	3,822	2,395	1,786	2,588	22,008	77,996
Credit at credit execution rating	32,348	11,931	3,650	2,316	1,753	2,479	21,747	76,224
Nonproblematic credit not at credit execution rating	618	288	148	50	23	25	156	1,308
Accruing problematic credit	94	27	8	9	7	19	21	185
Non-accruing credit	48	43	16	20	3	65	84	279
Commercial – other – total	48,758	21,212	9,206	5,763	3,176	9,125	28,561	125,801
Credit at credit execution rating	46,543	20,215	8,189	5,477	2,929	8,003	27,176	118,532
Nonproblematic credit not at credit execution rating	1,561	592	760	199	172	196	839	4,319
Accruing problematic credit	154	282	202	59	47	102	365	1,211
Non-accruing credit	500	123	55	28	28	824	181	1,739
Private individuals – housing loans – total	23,435	27,652	18,337	13,686	9,326	35,091	-	127,527
LTV up to 60%**	13,652	16,271	10,436	8,144	6,229	23,291	-	78,023
LTV over 60% up to 75%**	9,520	10,931	7,620	5,350	2,981	10,070	-	46,472
LTV over 75%**	263	450	281	192	116	1,730	-	3,032
Credit not past due at credit execution rating	23,300	27,403	18,109	13,488	9,135	34,104	-	125,539
Credit not past due not at credit execution rating	17	27	14	22	30	221	-	331
Past due by 89-30 days	107	175	168	119	106	410	-	1,085
Past due by 90 days or more[(1)]	-	-	-	-	-	-	-	-
Non-accruing credit[(1)]	11	47	46	57	55	356	-	572
Private individuals – other – total	18,621	7,308	2,864	1,699	1,182	731	2,649	35,054
Credit not past due at credit execution rating	17,728	6,499	2,520	1,419	927	446	2,200	31,739
Credit not past due not at credit execution rating[(1)]	830	721	297	237	213	241	410	2,949
Past due by 89-30 days[(1)]	24	29	12	9	9	5	25	113
Past due by 90 days or more[(1)]	8	11	4	3	2	3	12	43
Non-accruing credit	31	48	31	31	31	36	2	210
Total credit to the public – activity in Israel	123,922	68,461	34,229	23,543	15,470	47,535	53,218	366,378
Borrower activity outside Israel								
Total credit to the public – activity overseas	14,312	4,690	1,957	1,225	965	1,463	3,272	27,884
Nonproblematic credit	13,939	4,622	1,728	923	816	961	3,131	26,120
Accruing problematic credit	354	68	122	57	13	365	141	1,120
Non-accruing credit	19	-	107	245	136	137	-	644
Total credit to the public	138,234	73,151	36,186	24,768	16,435	48,998	56,490	394,262

* As at December 31, 2022, there are no revolving loans converted into fixed-term loans.
** Ratio of the approved credit facility, when the facility was granted, to the value of the asset, as approved by the Bank when the facility was granted.
(1) Restated.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

3. Additional information regarding non-accruing debts

	December 31, 2023					
	Balance[1] of non-accruing debts for which an allowance exists	Allowance	Balance[1] of non-accruing debts for which no allowance exists	Total balance of non-accruing debts	Balance of contractual principal of non-accruing debts	Interest income recorded[2]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	**201**	**52**	**411**	**612**	**1,356**	**9**
Construction and real estate – real-estate activities	**15**	**4**	**25**	**40**	**620**	**2**
Financial services	**6**	**6**	**-**	**6**	**156**	**-**
Commercial – other	**1,772**	**716**	**113**	**1,885**	**4,441**	**24**
Total commercial	**1,994**	**778**	**549**	**2,543**	**6,573**	**35**
Private individuals – housing loans	**747**	**65**	**-**	**747**	**855**	**-**
Private individuals – other	**222**	**140**	**-**	**222**	**957**	**10**
Total public – activity in Israel	**2,963**	**983**	**549**	**3,512**	**8,385**	**45**
Borrower activity outside Israel						
Total credit to the public – activity overseas	**414**	**147**	**86**	**500**	**800**	**5**
Total*	**3,377**	**1,130**	**635**	**4,012**	**9,185**	**50**
* Of which:						
Measured individually at present value of cash flows	**1,619**	**671**	**92**	**1,711**		
Measured individually at fair value of collateral	**576**	**127**	**543**	**1,119**		
Measured on a collective basis	**1,182**	**332**	**-**	**1,182**		

(1) Recorded debt balance.

(2) Amount of interest income recorded in the reported period in respect of the average balance of non-accruing debts, during the period in which the debts were classified as non-accruing.
If the non-accruing debts had accrued interest according to the original terms, interest income in the amount of NIS 499 million would have been recorded in 2023.
Additional information: the total average recorded debt balance of non-accruing debts in 2023 is NIS 3,609 million.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

3. Additional information regarding non-accruing debts (continued)

	December 31, 2022					
	Balance[1] of non-accruing debts for which an allowance exists	Allowance	Balance[1] of non-accruing debts for which no allowance exists	Total balance of non-accruing debts	Balance of contractual principal of non-accruing debts	Interest income recorded[2]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	163	68	53	216	1,270	1
Construction and real estate – real-estate activities	19	4	44	63	644	-
Financial services	22	11	-	22	173	-
Commercial – other	1,564	454	153	1,717	4,495	13
Total commercial	1,768	537	250	2,018	6,582	14
Private individuals – housing loans	572	47	-	572	634	-
Private individuals – other	210	93	-	210	950	7
Total public – activity in Israel	2,550	677	250	2,800	8,166	21
Borrower activity outside Israel						
Total credit to the public – activity overseas	589	151	55	644	921	1
Total*	3,139	828	305	3,444	9,087	22
* Of which:						
Measured individually at present value of cash flows	2,045	616	196	2,241		
Measured individually at fair value of collateral	140	7	109	249		
Measured on a collective basis	954	205	-	954		

(1) Recorded debt balance.

(2) Amount of interest income recorded in the reported period in respect of the average balance of non-accruing debts, during the period in which the debts were classified as non-accruing.
If the non-accruing debts had accrued interest according to the original terms, interest income in the amount of NIS 304 million would have been recorded in 2022.
Additional information: the total average recorded debt balance of non-accruing debts in 2022 is NIS 3,336 million.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

4. Additional information regarding troubled debt restructuring

	December 31, 2023					December 31, 2022				
	Recorded debt balance									
	Not accruing interest income	Accruing,[1] past due by 90 days or more	Accruing,[1] past due by 30 to 89 days	Accruing,[1] not past due	Total[2]	Not accruing interest income	Accruing,[1] past due by 90 days or more	Accruing,[1] past due by 30 to 89 days	Accruing,[1] not past due	Total[2]
Borrower activity in Israel										
Public – commercial										
Construction and real estate – construction	**35**	**-**	**1**	**12**	**48**	26	-	1	16	43
Construction and real estate – real-estate activities	**19**	**-**	**-**	**1**	**20**	22	-	-	2	24
Financial services	**5**	**-**	**-**	**1**	**6**	6	-	-	2	8
Commercial – other	**660**	**3**	**5**	**97**	**765**	799	1	3	140	943
Total commercial	**719**	**3**	**6**	**111**	**839**	853	1	4	160	1,018
Private individuals – housing loans	**12**	**-**	**-**	**-**	**12**	13	-	-	-	13
Private individuals – other	**213**	**2**	**11**	**310**	**536**	200	1	11	368	580
Total public – activity in Israel	**944**	**5**	**17**	**421**	**1,387**	1,066	2	15	528	1,611
Borrower activity outside Israel										
Total public – activity overseas	**192**	**-**	**-**	**-**	**192**	247	-	-	65	312
Total public	**1,136**	**5**	**17**	**421**	**1,579**	1,313	2	15	593	1,923

(1) Accruing interest income.
(2) As at December 31, 2023, debts that have undergone troubled debt restructuring in the amount of NIS 1,571 million were classified as problematic debts (December 31, 2022: NIS 1,906 million).

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

4. Additional information regarding troubled debt restructuring (continued)

	Debts restructured								
	In the year ended December 31, 2023			In the year ended December 31, 2022			In the year ended December 31, 2021		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	**191**	**46**	**27**	138	24	20	148	30	25
Construction and real estate – real-estate activities	**28**	**11**	**4**	16	11	11	25	22	20
Financial services	**9**	**5**	**4**	11	8	8	11	2	2
Commercial – other	**1,009**	**319**	**261**	839	104	89	752	209	101
Total commercial	**1,237**	**381**	**296**	1,004	147	128	936	263	148
Private individuals – housing loans	**49**	**21**	**21**	57	13	13	-	-	-
Private individuals – other	**5,879**	**309**	**309**	5,442	244	229	4,546	206	204
Total public – activity in Israel	**7,165**	**711**	**626**	6,503	404	370	5,482	469	352
Borrower activity outside Israel									
Total public – activity overseas	**19**	**-**	**-**	8	2	2	14	25	25
Total public	**7,184**	**711**	**626**	6,511	406	372	5,496	494	377

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

4. Additional information regarding troubled debt restructuring (continued)

	Failed restructured debts*					
	In the year ended December 31, 2023		In the year ended December 31, 2022		In the year ended December 31, 2021	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	**142**	**7**	103	10	142	12
Construction and real estate – real-estate activities	**13**	**2**	11	2	20	-
Financial services	**9**	**3**	6	3	5	-
Commercial – other	**768**	**60**	532	23	565	49
Total commercial	**932**	**72**	652	38	732	61
Private individuals – other	**3,841**	**46**	3,162	42	3,092	40
Total public – activity in Israel	**4,773**	**118**	3,814	80	3,824	101
Borrower activity outside Israel						
Total public – activity overseas	**12**	**2**	4	-	12	-
Total public	**4,785**	**120**	3,818	80	3,836	101

* Debts that became past due by 30 days or more during the reported year, which underwent troubled debt restructuring during the 12 months preceding the date on which they became past due.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

5. Additional information regarding non-accruing credit and past-due balances

	December 31, 2023							
	Not past due or past due by up to 89 days	Past due by 90 to 180 days	Past due by over 180 days, up to 1 year	Past due by over 1 year, up to 3 years	Past due by over 3 years, up to 5 years	Past due by over 5 years, up to 7 years	Past due by more than 7 years	Total
Commercial	**1,787**	**31**	**612**	**526**	**12**	**19**	**48**	**3,035**
Housing loans	**27**	**326**	**228**	**122**	**19**	**8**	**25**	**755**
Private individuals – other	**217**	**5**	**-**	**-**	**-**	**-**	**-**	**222**
Total	**2,031**	**362**	**840**	**648**	**31**	**27**	**73**	**4,012**

	December 31, 2022							
	Not past due or past due by up to 89 days	Past due by 90 to 180 days	Past due by over 180 days, up to 1 year	Past due by over 1 year, up to 3 years	Past due by over 3 years, up to 5 years	Past due by over 5 years, up to 7 years	Past due by more than 7 years	Total
Commercial	1,940	22	213	306	70	14	88	2,653
Housing loans	-	279	121	110	21	17	33	581
Private individuals – other	195	6	7	2	-	-	-	210
Total	2,135	307	341	418	91	31	121	3,444

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Credit to the public (continued)

6. Additional information regarding housing loans – private individuals

Year-end balances by financing ratio (LTV)*, repayment type, and interest type

		December 31, 2023			
		Balance of housing loans – private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
First lien: financing rate	Up to 60%	**80,126**	**1,574**	**49,476**	**2,838**
	Over 60%	**50,349**	**671**	**32,067**	**2,557**
Secondary lien or no lien		**1,088**	**11**	**666**	**995**
Total		**131,563**	**2,256**	**82,209**	**6,390**

		December 31, 2022			
		Balance of housing loans – private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
First lien: financing rate	Up to 60%	78,465	1,199	49,458	3,239
	Over 60%	48,562	439	31,230	2,492
Secondary lien or no lien		1,078	20	680	1,438
Total		128,105	1,658	81,368	7,169

* Ratio of the approved credit facility, when the facility was granted, to the value of the asset, as approved by the Bank when the facility was granted.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

C. Sale and acquisition of credit to the public during the year

1. Sale and acquisition of credit to the public

	Risk of credit to the public sold									
	For the year ended December 31, 2023					For the year ended December 31, 2022				
	Credit to the public sold this year	Off-balance sheet credit risk* sold this year	Of which: problematic credit	Total profit (loss) in respect of credit sold	Year-end balance of credit sold for which the Bank provides service	Credit to the public sold this year	Off-balance sheet credit risk* sold this year	Of which: problematic credit	Total profit (loss) in respect of credit sold	Year-end balance of credit sold for which the Bank provides service
Total commercial	**284**	**658**	**-**	**-**	**2,692**	1,275	337	243	(6)	2,520
Private individuals – housing loans	**-**	**-**	**-**	**-**	**208**	-	-	-	-	259
Total risk of credit to the public	**284**	**658**	**-**	**-**	**2,900**	1,275	337	243	(6)	2,779

	Risk of credit to the public acquired					
	For the year ended December 31, 2023			For the year ended December 31, 2022		
	Credit to the public acquired this year[1]	Off-balance sheet credit risk* acquired this year	Of which: problematic credit	Credit to the public acquired this year[1][2]	Off-balance sheet credit risk* acquired this year[2]	Of which: problematic credit
Total commercial	**17,158**	**277**	**-**	11,123	-	-
Total risk of credit to the public	**17,158**	**277**	**-**	11,123	-	-

* Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.

(1) Mostly includes short-term discounting transactions, including the acquisition of credit for governments.

(2) Reclassified.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

C. Sale and acquisition of credit to the public during the year (continued)

2. Syndications and participation in loan syndications

	Balance as at December 31, 2023					
	Syndication transactions initiated by the Bank*				Syndication transactions initiated by others	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk**	Credit to the public	Off-balance sheet credit risk**	Credit to the public	Off-balance sheet credit risk**
Total commercial	**13,940**	**12,404**	**22,873**	**15,037**	**8,080**	**4,245**
Private individuals – other	**-**	**-**	**2**	**-**	**-**	**-**
Total credit to the public	**13,940**	**12,404**	**22,875**	**15,037**	**8,080**	**4,245**

	Balance as at December 31, 2022					
	Syndication transactions initiated by the Bank*				Syndication transactions initiated by others	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk**	Credit to the public[1]	Off-balance sheet credit risk**	Credit to the public[1]	Off-balance sheet credit risk**[1]
Total commercial	12,111	9,440	21,147	8,799	6,974	3,364
Private individuals – other	1	-	2	-	-	-
Total credit to the public	12,112	9,440	21,149	8,799	6,974	3,364

* Including if the Bank is a material service provider in the syndication transaction; includes transactions managed as syndications that were treated as credit sales in the past.

** Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.

(1) Reclassified.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

D. Balances of credit to the public[1] and of off-balance sheet credit risk[1][2] by volume of credit per borrower

	December 31, 2023		
	Number of borrowers[1]	Credit*[2]	Off-balance sheet credit risk[2][3]
Credit per borrower in NIS thousands			
Up to 10	**411,697**	**465**	**957**
10 to 20	**320,847**	**1,214**	**2,401**
20 to 40	**230,031**	**2,563**	**3,967**
40 to 80	**208,315**	**6,047**	**5,839**
80 to 150	**155,923**	**11,110**	**6,047**
150 to 300	**112,541**	**18,292**	**5,368**
300 to 600	**74,899**	**28,417**	**4,110**
600 to 1,200	**82,276**	**65,592**	**5,550**
1,200 to 2,000	**30,813**	**41,290**	**4,482**
2,000 to 4,000	**9,379**	**21,358**	**3,307**
4,000 to 8,000	**2,417**	**10,399**	**2,794**
8,000 to 20,000	**1,473**	**13,645**	**5,145**
20,000 to 40,000	**786**	**15,084**	**7,087**
40,000 to 200,000	**1,313**	**77,044**	**40,585**
200,000 to 400,000	**206**	**38,235**	**17,850**
400,000 to 800,000	**86**	**28,362**	**19,780**
800,000 to 1,200,000	**24**	**10,366**	**13,029**
1,200,000 to 1,600,000	**14**	**11,897**	**7,373**
1,600,000 to 2,000,000	**5**	**3,832**	**5,410**
2,000,000 to 3,200,000	**10**	**11,600**	**13,117**
Over 3,200,000	**3**	**1,819**	**8,681**
Total	**1,643,058**	**418,631**	**182,879**

* Debts, bonds of the public, securities borrowed or purchased under agreements to resell, and credit risk in respect of derivative instruments, in the amount of NIS 409,340; 6,182; 1,097; and 2,012 million, respectively.

(1) The number of borrowers is calculated according to total credit and off-balance sheet credit risk, based on the recorded balance.

(2) Credit and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

Note:
Data for credit and off-balance sheet credit risk (hereinafter: "credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the data in each credit bracket of each consolidated company (layer-based consolidation), whereas data on credit over NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the credit of each borrower throughout the Bank Group and classifying it in the appropriate credit bracket (specific consolidation).

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

D. Balances of credit to the public[1] and of off-balance sheet credit risk[1][2] by volume of credit per borrower (continued)

	December 31, 2022		
	Number of borrowers[1]	Credit*[2]	Off-balance sheet credit risk[2][3]
Credit per borrower in NIS thousands			
Up to 10	486,815	670	1,203
10 to 20	283,462	1,254	1,824
20 to 40	211,234	2,762	3,245
40 to 80	198,156	6,675	4,680
80 to 150	155,590	12,177	4,920
150 to 300	107,692	18,154	4,444
300 to 600	72,254	27,768	3,725
600 to 1,200	82,951	65,807	5,687
1,200 to 2,000	29,707	39,610	4,480
2,000 to 4,000	9,180	20,898	3,395
4,000 to 8,000	2,449	10,570	2,883
8,000 to 20,000	1,612	14,309	6,039
20,000 to 40,000	837	15,895	7,926
40,000 to 200,000	1,303	72,690	37,932
200,000 to 400,000	206	34,129	22,401
400,000 to 800,000	80	25,995	18,605
800,000 to 1,200,000	23	8,944	12,854
1,200,000 to 1,600,000	11	10,981	4,029
1,600,000 to 2,000,000	5	3,223	5,918
2,000,000 to 3,200,000	7	7,590	10,495
Over 3,200,000	1	2,348	2,808
Total	1,643,575	402,449	169,493

* Debts, bonds of the public, other assets in respect of derivative instruments where the public is the counterparty, at a total of NIS 394,262; 5,698; and 2,489 million, respectively.

(1) The number of borrowers is calculated according to total credit and off-balance sheet credit risk, based on the recorded balance.

(2) Credit and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

Note:
Data for credit and off-balance sheet credit risk (hereinafter: "credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the data in each credit bracket of each consolidated company (layer-based consolidation), whereas data on credit over NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the credit of each borrower throughout the Bank Group and classifying it in the appropriate credit bracket (specific consolidation).

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

E. Off-balance sheet financial instruments

	2023	2022	**2023**	2022
	Contract balances*		Allowance for credit losses	
Transactions the balance of which represents a credit risk:				
(a) Documentary credit	**907**	1,741	**3**	5
(b) Credit guarantees	**7,491**	7,666	**61**	55
(c) Guarantees to purchasers of homes	**(1)36,213**	(1)41,143	**32**	41
(d) Other guarantees and liabilities**	**33,760**	34,040	**235**	264
(e) Unutilized credit-card credit facilities	**16,741**	12,427	**23**	23
(f) Unutilized revolving overdraft and other credit facilities in on-demand accounts	**27,011**	(2)25,242	**48**	(2)50
(g) Irrevocable commitments to grant credit approved but not yet drawn***	**(1)61,235**	(2)(1)55,122	**547**	(2)493
(h) Commitments to issue guarantees	**35,589**	31,939	**7**	4

* Contract balances or the nominal amounts thereof at the end of the period, before the effect of the allowance for credit losses.

** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 47 million (December 31, 2022: NIS 66 million).

*** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans."

(1) Includes off-balance sheet credit risk in respect of which insurance was acquired from foreign insurers.

(2) Reclassified.

Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

F. Guarantees

The Bank provides a wide range of guarantees and indemnities for its customers, in order to enable them to complete a wide variety of transactions. The maximum amount of potential future payments is established according to the nominal amount of the guarantees, without taking into consideration possible reimbursements or collateral held or pledged. To the extent necessary, the Bank customarily receives collateral or commitments of various kinds, such as deposits, securities, real estate, financial ratios, etc. Most of the guarantees at the Bank are assigned the rating at which the credit was granted.

	December 31, 2023					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
Credit guarantees	**4,498**	**1,973**	**628**	**392**	**-**	**7,491**
Guarantees to purchasers of homes	**3,362**	**2,187**	**-**	**-**	**30,664**	**36,213**
Guarantees and other commitments	**10,906**	**5,549**	**3,224**	**4,774**	**9,307**	**33,760**
Commitments to issue guarantees	**17,019**	**16,099**	**2,382**	**89**	**-**	**35,589**
Total	**35,785**	**25,808**	**6,234**	**5,255**	**39,971**	**113,053**

	December 31, 2022					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
Credit guarantees	5,717	985	540	416	8	7,666
Guarantees to purchasers of homes	4,421	69	-	-	36,653	41,143
Guarantees and other commitments	15,813	4,763	2,029	3,512	7,923	34,040
Commitments to issue guarantees	16,761	12,902	2,208	68	-	31,939
Total	42,712	18,719	4,777	3,996	44,584	114,788

Note 30 Assets and Liabilities by Linkage Base

NIS millions

	December 31, 2023						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	**93,082**	**34**	**13,632**	**355**	**571**	**56**	**107,730**
Securities	**73,616**	**1,415**	**42,595**	**4,099**	**964**	**4,433**	**127,122**
Securities borrowed or purchased under agreements to resell	**636**	**-**	**4,087**	**-**	**-**	**-**	**4,723**
Net credit to the public[2]	**296,047**	**61,795**	**36,145**	**5,345**	**3,522**	**4,527**	**407,381**
Credit to governments	**1,138**	**-**	**324**	**1,713**	**-**	**-**	**3,175**
Investments in equity-basis investees	**-**	**-**	**-**	**-**	**-**	**1,527**	**1,527**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,672**	**3,672**
Assets in respect of derivative instruments	**11,975**	**1,110**	**9,501**	**773**	**684**	**1,186**	**25,229**
Other assets	**4,699**	**35**	**132**	**2**	**1**	**1,102**	**5,971**
Total assets	**481,193**	**64,389**	**106,416**	**12,287**	**5,742**	**16,503**	**686,530**
Liabilities							
Deposits from the public	**395,393**	**11,994**	**125,642**	**13,038**	**3,937**	**4,591**	**554,595**
Deposits from banks	**5,461**	**-**	**3,520**	**48**	**56**	**-**	**9,085**
Deposits from the government	**495**	**-**	**1,936**	**5**	**-**	**-**	**2,436**
Securities lent or sold under agreements to repurchase	**-**	**-**	**6,279**	**-**	**-**	**-**	**6,279**
Bonds and subordinated notes	**3,960**	**14,442**	**3,398**	**-**	**-**	**-**	**21,800**
Liabilities in respect of derivative instruments	**12,180**	**1,522**	**7,756**	**895**	**702**	**1,185**	**24,240**
Other liabilities	**9,389**	**4,671**	**693**	**28**	**191**	**693**	**15,665**
Total liabilities	**426,878**	**32,629**	**149,224**	**14,014**	**4,886**	**6,469**	**634,100**
Surplus assets (liabilities)	**54,315**	**31,760**	**(42,808)**	**(1,727)**	**856**	**10,034**	**52,430**
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	**(40,352)**	**(2,427)**	**41,965**	**1,711**	**(897)**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**(376)**	**-**	**290**	**172**	**(86)**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**1,016**	**-**	**(668)**	**(175)**	**(173)**	**-**	**-**
Overall total	**14,603**	**29,333**	**(1,221)**	**(19)**	**(300)**	**10,034**	**52,430**
Options in the money, net (nominal present value)	**(51)**	**-**	**178**	**67**	**(194)**	**-**	**-**
Options out of the money, net (nominal present value)	**2,866**	**-**	**(2,025)**	**(756)**	**(85)**	**-**	**-**

* Including derivative instruments whose underlying asset refers to a non-monetary item, and non-monetary items exposed to changes in foreign-currency exchange rates.

(1) Including linked to foreign currency.

(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 30 Assets and Liabilities by Linkage Base (continued)

NIS millions

	December 31, 2022						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	116,502	-	15,452	605	808	57	133,424
Securities	58,995	2,122	38,027	3,024	1,184	4,048	107,400
Securities borrowed or purchased under agreements to resell	316	-	582	-	-	-	898
Net credit to the public[2]	289,721	56,693	30,495	4,869	2,648	4,301	388,727
Credit to governments	141	-	484	1,532	-	-	2,157
Investments in equity-basis investees	-	-	-	-	-	1,198	1,198
Buildings and equipment	-	-	-	-	-	3,522	3,522
Assets in respect of derivative instruments	7,890	1,313	9,929	1,249	572	879	21,832
Other assets	4,836	15	145	32	18	1,149	6,195
Total assets	478,401	60,143	95,114	11,311	5,230	15,154	665,353
Liabilities							
Deposits from the public	386,568	12,189	115,148	10,666	3,653	4,364	532,588
Deposits from banks	7,177	-	1,294	194	31	-	8,696
Deposits from the government	301	-	2,958	3	-	-	3,262
Securities lent or sold under agreements to repurchase	-	-	13,877	-	-	-	13,877
Bonds and subordinated notes	4,372	19,282	3,212	-	-	-	26,866
Liabilities in respect of derivative instruments	8,370	1,932	6,379	986	489	887	19,043
Other liabilities	8,333	4,548	757	184	236	460	14,518
Total liabilities	415,121	37,951	143,625	12,033	4,409	5,711	618,850
Surplus assets (liabilities)	63,280	22,192	(48,511)	(722)	821	9,443	46,503
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(41,955)	(3,601)	46,089	552	(1,085)	-	-
Options in the money, net (in terms of underlying asset)	(256)	-	9	237	10	-	-
Options out of the money, net (in terms of underlying asset)	(700)	-	802	(139)	37	-	-
Overall total	20,369	18,591	(1,611)	(72)	(217)	9,443	46,503
Options in the money, net (nominal present value)	1,339	-	(1,360)	12	9	-	-
Options out of the money, net (nominal present value)	(1,707)	-	1,990	(522)	239	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item, and non-monetary items exposed to changes in foreign-currency exchange rates.

(1) Including linked to foreign currency.

(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 31 Assets and Liabilities by Currency and by Term to Maturity

	December 31, 2023				
	Future expected contractual cash flows*				
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 2 years	Over 2 years up to 3 years
	NIS millions				
Israeli currency (including foreign-currency linked)					
Assets	**174,276**	**37,115**	**69,083**	**60,302**	**53,283**
Liabilities	**300,983**	**49,554**	**62,192**	**17,225**	**6,289**
Difference	**(126,707)**	**(12,439)**	**6,891**	**43,077**	**46,994**
Derivative instruments (excluding options)	**(12,338)**	**(14,856)**	**(11,989)**	**(2,448)**	**(1,538)**
Options (in terms of underlying asset)	**(9,608)**	**3,405**	**5,224**	**1,553**	**-**
Difference after effect of derivative instruments	**(148,653)**	**(23,890)**	**126**	**42,182**	**45,456**
Foreign currency**					
Assets	**39,256**	**7,609**	**17,020**	**13,346**	**14,635**
Liabilities	**101,346**	**20,630**	**36,952**	**4,385**	**1,029**
Difference	**(62,090)**	**(13,021)**	**(19,932)**	**8,961**	**13,606**
Of which: difference in USD	**(57,522)**	**(12,253)**	**(20,313)**	**4,577**	**12,531**
Of which: difference in respect of foreign operations	**(3,391)**	**(1,751)**	**(4,695)**	**1,747**	**5,440**
Derivative instruments (excluding options)	**12,338**	**14,885**	**12,026**	**2,460**	**1,495**
Options (in terms of underlying asset)	**9,608**	**(3,405)**	**(5,224)**	**(1,553)**	**-**
Difference after effect of derivative instruments	**(40,144)**	**(1,541)**	**(13,130)**	**9,868**	**15,101**
Total as at December 31, 2023					
Assets***	**213,532**	**44,724**	**86,103**	**73,648**	**67,918**
Liabilities****	**402,329**	**70,184**	**99,144**	**21,610**	**7,318**
Difference	**(188,797)**	**(25,460)**	**(13,041)**	**52,038**	**60,600**
*** Of which: credit to the public	**90,168**	**27,973**	**61,313**	**52,239**	**37,998**
**** Of which: deposits from the public	**380,224**	**63,233**	**87,986**	**12,736**	**2,072**

* This note presents expected future contractual cash flows in respect of assets and liabilities by currency, according to the remaining contractual maturity periods of each cash flow. The data are presented net of the effect of charge-offs and of allowances for credit losses.

** Excluding Israeli currency linked to foreign currency.

(1) Assets with no maturity period, including assets in the amount of NIS 5,400 million, which are past due.

(2) As included in Note 30, "Assets and Liabilities by Linkage Base," including off-balance sheet amounts in respect of derivatives.

(3) The contractual return rate is the interest rate discounting the expected contractual future cash flows presented in this note in respect of a monetary item to its balance sheet balance.

(4) Including revolving credit in the amount of NIS 17,670 million, of which amounts in excess of revolving credit facilities in the amount of NIS 2,020 million.

December 31, 2023									
Future expected contractual cash flows*						Balance sheet balance[2]		Contractual return rate[3]
Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 years	Over 20 years	Total cash flows	No maturity period[1]	Total	
NIS millions								%
30,617	**24,085**	**88,491**	**74,180**	**28,773**	**640,205**	**4,011**	**545,823**	**5.07%**
3,756	**9,368**	**12,622**	**2,904**	**2**	**464,895**	**-**	**459,786**	**3.05%**
26,861	**14,717**	**75,869**	**71,276**	**28,771**	**175,310**	**4,011**	**86,037**	
(639)	**682**	**(938)**	**(90)**	**-**	**(44,154)**	**-**	**(42,540)**	
-	**-**	**-**	**-**	**-**	**574**	**-**	**566**	
26,222	**15,399**	**74,931**	**71,186**	**28,771**	**131,730**	**4,011**	**44,063**	
11,593	**13,510**	**19,345**	**896**	**-**	**137,210**	**1,389**	**124,204**	**5.28%**
987	**787**	**5,358**	**65**	**-**	**171,539**	**-**	**167,845**	**4.79%**
10,606	**12,723**	**13,987**	**831**	**-**	**(34,329)**	**1,389**	**(43,641)**	
8,946	**12,365**	**12,026**	**721**	**-**	**(38,922)**	**1,187**	**(37,869)**	
2,234	**3,928**	**2,138**	**170**	**-**	**5,820**	**233**	**2,589**	
637	**(602)**	**830**	**85**	**-**	**44,154**	**-**	**42,540**	
-	**-**	**-**	**-**	**-**	**(574)**	**-**	**(566)**	
11,243	**12,121**	**14,817**	**916**	**-**	**9,251**	**1,389**	**(1,667)**	
42,210	**37,595**	**107,836**	**75,076**	**28,773**	**777,415**	**5,400**	**[4]670,027**	**5.11%**
4,743	**10,155**	**17,980**	**2,969**	**2**	**636,434**	**-**	**627,631**	**3.51%**
37,467	**27,440**	**89,856**	**72,107**	**28,771**	**140,981**	**5,400**	**42,396**	**1.60%**
27,841	**24,571**	**68,846**	**73,789**	**28,225**	**492,963**	**5,315**	**402,854**	**5.42%**
1,688	**1,125**	**3,386**	**2,520**	**-**	**554,970**	**-**	**550,004**	**3.85%**

Note 31 Assets and Liabilities by Currency and by Term to Maturity (continued)

	December 31, 2022				
	Future expected contractual cash flows*				
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 2 years	Over 2 years up to 3 years
	NIS millions				
Israeli currency (including foreign-currency linked)					
Assets	182,611	27,340	78,286	49,679	45,540
Liabilities	331,647	29,249	35,156	19,746	10,543
Difference	(149,036)	(1,909)	43,130	29,933	34,997
Derivative instruments (excluding options)	(13,452)	(7,576)	(19,220)	(2,257)	(1,201)
Options (in terms of underlying asset)	(375)	197	(31)	674	4
Difference after effect of derivative instruments	(162,863)	(9,288)	23,879	28,350	33,800
Foreign currency**					
Assets	28,362	7,642	14,839	14,273	18,393
Liabilities	83,563	28,820	36,876	5,999	1,201
Difference	(55,201)	(21,178)	(22,037)	8,274	17,192
Of which: difference in USD	(43,147)	(12,406)	(21,523)	5,247	14,242
Of which: difference in respect of foreign operations	2,688	(2,075)	(2,548)	650	2,535
Derivative instruments (excluding options)	13,527	7,579	19,325	2,169	1,202
Options (in terms of underlying asset)	375	(197)	31	(674)	(4)
Difference after effect of derivative instruments	(41,299)	(13,796)	(2,681)	9,769	18,390
Total as at December 31, 2022					
Assets***	210,973	34,982	93,125	63,952	63,933
Liabilities****	415,210	58,069	72,032	25,745	11,744
Difference	(204,237)	(23,087)	21,093	38,207	52,189
*** Of which: credit to the public	72,774	25,985	62,596	45,602	39,068
**** Of which: deposits from the public	397,290	44,765	58,492	18,936	4,077

* This note presents expected future contractual cash flows in respect of assets and liabilities by currency, according to the remaining contractual maturity periods of each cash flow. The data are presented net of the effect of charge-offs and of allowances for credit losses.

** Excluding Israeli currency linked to foreign currency.

(1) Assets with no maturity period, including assets in the amount of NIS 7,124 million, which are past due.

(2) As included in Note 30, "Assets and Liabilities by Linkage Base," including off-balance sheet amounts in respect of derivatives.

(3) The contractual return rate is the interest rate discounting the expected contractual future cash flows presented in this note in respect of a monetary item to its balance sheet balance.

(4) Including revolving credit in the amount of NIS 15,284 million, of which amounts in excess of revolving credit facilities in the amount of NIS 619 million.

December 31, 2022									
Future expected contractual cash flows*							Balance sheet balance[2]		Contractual return rate[3]
Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 years	Over 20 years	Total cash flows	No maturity period[1]	Total	
NIS millions								%
36,802	20,705	75,482	68,921	26,772	612,138	5,265	538,941	4.21%
6,160	3,980	17,476	3,048	1	457,006	-	453,456	2.20%
30,642	16,725	58,006	65,873	26,771	155,132	5,265	85,485	
(588)	(1,623)	352	(70)	-	(45,635)	-	(44,556)	
-	-	-	-	-	469	-	437	
30,054	15,102	58,358	65,803	26,771	109,966	5,265	41,366	
11,553	7,394	18,590	1,856	185	123,087	1,859	111,258	5.00%
934	752	5,321	110	176	163,752	-	159,683	4.85%
10,619	6,642	13,269	1,746	9	(40,665)	1,859	(48,425)	
10,268	5,623	15,572	1,639	-	(24,485)	1,589	(22,853)	
3,551	1,547	3,107	220	-	9,675	475	7,511	
558	1,563	(354)	66	-	45,635	-	44,556	
-	-	-	-	-	(469)	-	(437)	
11,177	8,205	12,915	1,812	9	4,501	1,859	(4,306)	
48,355	28,099	94,072	70,777	26,957	735,225	7,124	[4]650,199	4.34%
7,094	4,732	22,797	3,158	177	620,758	-	613,139	2.89%
41,261	23,367	71,275	67,619	26,780	114,467	7,124	37,060	1.45%
28,351	21,603	65,644	67,701	25,827	455,151	6,928	384,426	4.46%
1,847	1,411	3,303	1,717	174	532,012	-	528,224	3.09%

Note 32 Balances and Fair Value Estimates of Financial Instruments

Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A "market price" cannot be quoted for the majority of financial instruments at the Bank because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. An estimate of fair value by means of an assessment of future cash flows and the setting of a discounting interest rate is subjective. Therefore, for the majority of financial instruments, the assessment of fair value does not necessarily constitute an indication of the disposal value of the financial instrument on the reporting date. The fair value is assessed on the basis of the interest rates valid at the reporting date, and does not take interest-rate volatility into account. Under the assumption of different interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, the assessment of fair value does not take into consideration fees to be received or paid in the course of business activity, and does not include tax effects. Moreover, the difference between the balance sheet balance and fair value balances may not be realized, because in the majority of cases the financial instrument may be held to maturity by the Bank. Due to all of these factors, it should be emphasized that data included in this note are insufficient to indicate the value of the banking corporation as a going concern.

Principal methods and assumptions used to estimate the fair value of financial instruments

Deposits with banks, nonmarketable bonds and loans, and credit to the government – By discounting future cash flows according to the interest rates at which the Bank executed similar transactions at the reporting date.

Marketable securities – According to market value in the principal market.

Credit to the public – The fair value of the balance of credit to the public is estimated using the method of the present value of future cash flows. The balance of credit was segmented into homogeneous categories. In each category, the flow of future receipts (principal and interest) was calculated and discounted by an interest rate reflecting the level of risk inherent in the credit in that category.

This interest rate was usually determined according to the interest rate at which similar transactions were executed at the Bank at the reporting date.

The fair value of non-accruing debts was calculated using discount rates reflecting the high credit risk inherent in such debts. In any case, these discount rates were not lower than the highest interest rate used by the Bank in its transactions at the reporting date.

Future cash flows for non-accruing debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses. An increase of 1% in discounting interest rates of impaired debts would reduce their fair value by a total of NIS 10 million.

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

The calculation of fair value includes assumptions regarding prepayment of housing loans, in accordance with the estimates of the Bank, based on an examination of the historical data regarding prepayment in relation to parameters that explain such prepayment. The effect of these assumptions on fair value is an increase of the fair value by NIS 80 million.

Deposits, bonds, and notes – For current accounts, the balance sheet balance constitutes an estimate of the fair value, i.e. the calculation does not include the current-account layout model, as applied in the calculation of adjusted fair value. Other deposits are calculated by discounting future cash flows according to the interest rates at which the corporation raises similar deposits or the Bank issues similar bonds and notes (if a price quoted in an active market is not available) at the reporting date. With regard to bonds and subordinated notes traded as an asset in an active market, fair value is based on quoted market prices or on quotes from traders for an identical liability traded as an asset in an active market.

Inter-customer lending – Presented as credit and deposits, and measured according to the value of the loaned securities on the stock market.

Derivative financial instruments – Derivative financial instruments that have an active market were assessed at the market value established in the principal market.

Derivative financial instruments not traded in an active market were assessed on the basis of models used by the Bank in its routine operations, taking into account the risks inherent in the financial instrument.

Estimates of the fair value of assets in respect of derivative instruments also reflect the credit risk of the counterparty, and estimates of the fair value of liabilities in respect of derivative instruments also reflect the credit risk of the Bank.

Off-balance sheet financial instruments in which the balance represents credit risk – Fair value is presented according to the balance sheet balance of the fees in the aforesaid transactions, which constitute an approximation of the fair value.

Assets and liabilities for which fair value is measured based on Level 3 data – Items for which fair value is determined based on an indicative price from an independent entity, indicative price of a counterparty to the transaction, or evaluation models in which some of the significant inputs are unobservable; and items for which fair value is determined based on internal models or service bureaus, some of the inputs of which are unobservable.

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

NIS millions

A. Balances and fair-value estimates of financial instruments

	December 31, 2023				
	Balance sheet balance	Fair value[1]			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	**107,730**	**3,555**	**98,020**	**6,114**	**107,689**
Securities*	**127,122**	**99,963**	**23,085**	**3,468**	**126,516**
Securities borrowed or purchased under agreements to resell	**4,723**	**-**	**4,722**	**-**	**4,722**
Net credit to the public	**407,381**	**13,615**	**-**	**387,313**	**400,928**
Credit to governments	**3,175**	**-**	**-**	**3,170**	**3,170**
Assets in respect of derivative instruments	**25,229**	**1,379**	**18,303**	**5,547**	**25,229**
Other financial assets	**873**	**11**	**-**	**862**	**873**
Total financial assets**	**676,233**	**118,523**	**144,130**	**406,474**	**669,127**
Financial liabilities					
Deposits from the public***	**554,595**	**21,126**	**280,969**	**252,150**	**554,245**
Deposits from banks	**9,085**	**-**	**-**	**8,961**	**8,961**
Deposits from the government	**2,436**	**-**	**-**	**2,444**	**2,444**
Securities lent or sold under agreements to repurchase	**6,279**	**-**	**6,259**	**-**	**6,259**
Bonds and subordinated notes	**21,800**	**20,669**	**-**	**14**	**20,683**
Liabilities in respect of derivative instruments	**24,240**	**1,363**	**15,399**	**7,478**	**24,240**
Other financial liabilities	**6,144**	**11**	**-**	**6,133**	**6,144**
Total financial liabilities**	**624,579**	**43,169**	**302,627**	**277,180**	**622,976**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	**-**	**-**	**-**	**124**	**124**

* Includes shares and options without a readily determinable fair value, which are stated at cost, in the amount of NIS 2,861 million. For further details regarding the balance sheet balance and fair value of securities, see Note 12.

** Of which: assets and liabilities in the amount of NIS 151,078 million and in the amount of NIS 252,470 million, respectively, the balance sheet balance of which constitutes an approximation of fair value. For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

*** Of which, a total of NIS (32) million in respect of embedded derivative instruments is included in the item of deposits from the public.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

NIS millions

A. Balances and fair-value estimates of financial instruments (continued)

	December 31, 2022*				
	Balance sheet balance	Fair value[1]			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	133,424	3,110	123,201	7,065	133,376
Securities**	107,400	83,920	20,020	2,809	106,749
Securities borrowed or purchased under agreements to resell	898	-	898	-	898
Net credit to the public	388,727	10,233	-	368,382	378,615
Credit to governments	2,157	-	-	2,141	2,141
Assets in respect of derivative instruments	21,832	1,052	14,103	6,677	21,832
Other financial assets	1,499	25	-	1,474	1,499
Total financial assets***	655,937	98,340	158,222	388,548	645,110
Financial liabilities					
Deposits from the public****	532,588	17,020	318,011	195,875	530,906
Deposits from banks	8,696	-	-	8,404	8,404
Deposits from the government	3,262	-	-	3,270	3,270
Securities lent or sold under agreements to repurchase	13,877	-	13,877	-	13,877
Bonds and subordinated notes	26,866	25,603	-	21	25,624
Liabilities in respect of derivative instruments	19,043	1,035	14,037	3,971	19,043
Other financial liabilities	6,295	25	-	6,270	6,295
Total financial liabilities***	610,627	43,683	345,925	217,811	607,419
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	-	-	-	133	133

* Restated.

** Includes shares and options without a readily determinable fair value, which are stated at cost, in the amount of NIS 2,315 million. For further details regarding the balance sheet balance and fair value of securities, see Note 12.

*** Of which: assets and liabilities in the amount of NIS 130,306 million and in the amount of NIS 267,411 million, respectively, the balance sheet balance of which constitutes an approximation of fair value. For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

**** Of which, a total of NIS (41) million in respect of embedded derivative instruments is included in the item of deposits from the public.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

NIS millions

B. Items measured at fair value on a recurring basis

	December 31, 2023			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Bonds available for sale				
Israeli government bonds	**45,089**	**9,677**	**-**	**54,766**
Foreign government bonds	**20,796**	**1,338**	**-**	**22,134**
Bonds of financial institutions in Israel	**-**	**54**	**-**	**54**
Bonds of foreign financial institutions	**161**	**8,677**	**185**	**9,023**
Bonds of foreign others	**17**	**3,247**	**-**	**3,264**
Total bonds available for sale	**66,063**	**22,993**	**185**	**89,241**
Investments in shares not held for trading	**1,480**	**92**	**-**	**1,572**
Securities held for trading				
Israeli government bonds	**16,097**	**-**	**-**	**16,097**
Foreign government bonds	**1,615**	**-**	**-**	**1,615**
Total securities held for trading	**17,712**	**-**	**-**	**17,712**
Assets in respect of derivative instruments				
NIS-CPI contracts	**-**	**835**	**127**	**962**
Other interest contracts	**-**	**8,610**	**387**	**8,997**
Foreign-currency contracts	**94**	**4,209**	**4,824**	**9,127**
Share contracts	**1,285**	**4,642**	**203**	**6,130**
Commodity and other contracts	**-**	**7**	**6**	**13**
Assets in respect of embedded derivatives	**-**	**40**	**2**	**42**
Total assets in respect of derivative instruments	**1,379**	**18,343**	**5,549**	**25,271**
Credit in respect of securities lending	**13,716**	**-**	**-**	**13,716**
Assets in respect of activity in the Maof market	**11**	**-**	**-**	**11**
Total assets	**100,361**	**41,428**	**5,734**	**147,523**
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	**-**	**537**	**317**	**854**
Other interest contracts	**-**	**7,981**	**494**	**8,475**
Foreign-currency contracts	**101**	**4,101**	**4,652**	**8,854**
Share contracts	**1,262**	**2,778**	**2,005**	**6,045**
Commodity and other contracts	**-**	**2**	**10**	**12**
Liabilities in respect of embedded derivatives	**-**	**8**	**2**	**10**
Total liabilities in respect of derivative instruments	**1,363**	**15,407**	**7,480**	**24,250**
Deposits in respect of inter-customer lending	**12,807**	**-**	**-**	**12,807**
Liabilities in respect of activity in the Maof market	**11**	**-**	**-**	**11**
Liabilities in respect of securities lending	**8,319**	**-**	**-**	**8,319**
Total liabilities	**22,500**	**15,407**	**7,480**	**45,387**

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

NIS millions

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2022			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Bonds available for sale				
Israeli government bonds	45,103	6,648	-	51,751
Foreign government bonds	19,519	2,133	-	21,652
Bonds of foreign financial institutions	-	7,357	177	7,534
Bonds of foreign others	15	3,155	-	3,170
Total bonds available for sale	64,637	19,293	177	84,107
Investments in shares not held for trading	1,671	62	-	1,733
Securities held for trading				
Israeli government bonds	7,699	7	-	7,706
Foreign government bonds	765	-	-	765
Bonds of foreign financial institutions	-	420	-	420
Bonds of foreign others	-	238	-	238
Total securities held for trading	8,464	665	-	9,129
Assets in respect of derivative instruments				
NIS-CPI contracts	-	951	120	1,071
Other interest contracts	-	9,533	621	10,154
Foreign-currency contracts	195	3,277	4,891	8,363
Share contracts	857	341	1,042	2,240
Commodity and other contracts	-	1	3	4
Assets in respect of embedded derivatives	-	39	20	59
Total assets in respect of derivative instruments	1,052	14,142	6,697	21,891
Credit in respect of securities lending	10,311	-	-	10,311
Assets in respect of activity in the Maof market	25	-	-	25
Total assets	86,160	34,162	6,874	127,196
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	546	399	945
Other interest contracts	-	9,371	597	9,968
Foreign-currency contracts	167	3,058	2,696	5,921
Share contracts	868	1,060	277	2,205
Commodity and other contracts	-	2	2	4
Liabilities in respect of embedded derivatives	-	18	-	18
Total liabilities in respect of derivative instruments	1,035	14,055	3,971	19,061
Deposits in respect of inter-customer lending	8,218	-	-	8,218
Liabilities in respect of activity in the Maof market	25	-	-	25
Liabilities in respect of securities lending	8,802	658	-	9,460
Total liabilities	18,080	14,713	3,971	36,764

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

NIS millions

C. Items measured at fair value on a nonrecurring basis

	December 31, 2023				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2023
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets measured at fair value on a nonrecurring basis					
Collateral-dependent non-accruing credit	**-**	**-**	**1,119**	**1,119**	**(1)(107)**
Investments in shares	**-**	**-**	**469**	**469**	**(2)(32)**
Total	**-**	**-**	**1,588**	**1,588**	**(139)**

(1) Gains (losses) included in the statement of profit and loss under the item "provision for credit losses."
(2) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."
Of which: positive revaluations in the amount of NIS 61 million and impairments in the amount of NIS (93) million.

	December 31, 2022				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2022
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets measured at fair value on a nonrecurring basis					
Collateral-dependent non-accruing credit	-	-	249	249	(1)14
Investments in shares	-	-	*199	*199	(2)*82
Total	-	-	448	448	96

* Reclassified.
(1) Gains (losses) included in the statement of profit and loss under the item "provision for credit losses."
(2) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."
Of which: positive revaluations in the amount of NIS 110 million and impairments in the amount of NIS (28) million.

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3

	For the year ended December 31, 2023								
	Fair value as at Dec. 31, 2022	Gains (losses) included in statement of profit and loss[1][3]	Gains (losses) included in equity[2]	Acquisitions	Extinguishments	Transfers to Level 3	Transfers from Level 3	Fair value as at Dec. 31, 2023	Unrealized gains (losses) in respect of instruments held as at Dec. 31, 2023
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	**177**	**9**	**(1)**	**-**	**-**	**-**	**-**	**185**	**-**
Net balances in respect of derivative instruments									
NIS-CPI contracts	**(279)**	**8**	**-**	**-**	**81**	**-**	**-**	**(190)**	**[3]6**
Other interest contracts	**24**	**(54)**	**-**	**3**	**(80)**	**-**	**-**	**(107)**	**[3][1]126**
Foreign-currency contracts	**2,195**	**756**	**-**	**146**	**(2,925)**	**-**	**-**	**172**	**[3](251)**
Share contracts	**765**	**(1,772)**	**-**	**-**	**(795)**	**-**	**-**	**(1,802)**	**[3]69**
Commodity and other contracts	**1**	**(5)**	**-**	**-**	**-**	**-**	**-**	**(4)**	**[3](5)**
Embedded derivatives	**20**	**(20)**	**-**	**-**	**-**	**-**	**-**	**-**	**[3]2**
Total	**2,903**	**(1,078)**	**(1)**	**149**	**(3,719)**	**-**	**-**	**(1,746)**	**(53)**

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of bonds available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the year ended December 31, 2022								
	Fair value as at Dec.31, 2021	Gains (losses) included in statement of profit and loss[1][3]	Gains (losses) included in equity[2]	Acquisitions	Extinguishments	Transfers to Level 3	Transfers from Level 3	Fair value as at Dec. 31, 2022	Unrealized gains (losses) in respect of instruments held as at Dec. 31, 2022
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	160	18	(1)	-	-	-	-	177	-
Net balances in respect of derivative instruments									
NIS-CPI contracts	(137)	(150)	-	-	8	-	-	(279)	[3](142)
Other interest contracts	(4)	45	-	(4)	(13)	-	-	24	[3][1]196
Foreign-currency contracts	(3,769)	4,025	-	3	1,936	-	-	2,195	[3]1,958
Share contracts	(664)	858	-	-	571	-	-	765	[3]120
Commodity and other contracts	(1)	3	-	-	(1)	-	-	1	-
Embedded derivatives	(21)	21	-	1	19	-	-	20	[3]5
Total	(4,436)	4,820	(1)	-	2,520	-	-	2,903	2,137

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of bonds available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

E. During the period, there were no transfers of items measured at fair value from Level 3 measurement to Level 2 measurement, with the exception of transfers due to transaction counterparty risk. In accordance with the policy of the Bank, transfers from level to level are recognized as occurring at the end of the reported period.

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

	December 31, 2023			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	**185**	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	**(190)**	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.35%-6.51% (0.67%)
Other interest contracts	**(102)**	Interest-rate derivatives pricing model	Transaction counterparty risk	0.35%-5.11% (1.07%)
Foreign-currency contracts	**172**	Option pricing model	Transaction counterparty risk	0.35%-16.15% (0.70%)
Share contracts	**(1,802)**	Share derivatives pricing model	Transaction counterparty risk	0.35%-4.15% (0.46%)
Share contracts	**-**	Option pricing model	Quote from counterparty	
Foreign-currency contracts	**-**	Option pricing model	Quote from counterparty	
Other interest contracts	**(5)**	Option pricing model	Standard deviation	12.00%-13.60% (12.21%)
Commodity and other contracts	**(4)**	Currency derivatives pricing model	Transaction counterparty risk	0.35%-4.15% (1.35%)
Embedded derivatives[1]	**-**	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	**469**	Valuation		
Collateral-dependent non-accruing credit	**1,119**	Tradable assets – market value less an appropriate safety coefficient		
	-	Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:
(1) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Note 32 Balances and Fair Value Estimates of Financial Instruments (continued)

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

	December 31, 2022			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	177	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	(279)	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.35%-4.52% (0.75%)
Other interest contracts	15	Interest-rate derivatives pricing model	Transaction counterparty risk	0.24%-3.76% (0.93%)
Foreign-currency contracts	2,195	Option pricing model	Transaction counterparty risk	0.16%-14.45% (0.60%)
Share contracts	762	Share derivatives pricing model	Transaction counterparty risk	0.24%-2.58% (0.51%)
Share contracts	3	Option pricing model	Quote from counterparty	
Foreign-currency contracts	-	Option pricing model	Quote from counterparty	
Other interest contracts	9	Option pricing model	Standard deviation	110.00%-122.00% (112.57%)
Commodity and other contracts	1	Currency derivatives pricing model	Transaction counterparty risk	0.35%-2.39% (0.39%)
Embedded derivatives[1]	20	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	190	Valuation		
Collateral-dependent non-accruing credit	249	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:
(1) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Note 33 Interested and Related Parties

NIS millions

Parent companies, controlling shareholder, and subsidiaries

Interested party and related party transactions were carried out in the ordinary course of business, in general, based on business considerations, at terms similar to terms of transactions with entities unrelated to the Bank. In a few cases, the Bank supported subsidiaries, according to common practice, through investment in capital, loans, comfort letters, indemnity letters, etc. Income or expenses related to such transactions are included in the appropriate items of the statement of profit and loss.

For details regarding settlements with insurers (subject to court approval), see Note 25.D.c.2 and Note 25.E.

For details regarding updated letters of indemnity granted to officers, see Note 25.B.3.

A. Balance sheet balances

	December 31, 2023							
	Interested parties							
	Shareholders		Interested party at the time of the transaction		Officers*		Others	
	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**
Assets								
Securities	-	-	-	-	-	-	-	-
Credit to the public	73	86	445	520	6	10	3,933	6,329
Allowance for credit losses	-	-	(6)	(7)	-	-	(47)	(61)
Net credit to the public	73	86	439	513	6	10	3,886	6,268
Investments in equity-basis investees	-	-	-	-	-	-	-	-
Other assets	211	609	-	-	-	-	1,030	2,863
Liabilities								
Deposits from the public	2,006	2,345	-	-	30	48	19,030	25,652
Bonds and subordinated notes	-	2	-	-	-	-	5	7
Other liabilities	139	139	-	-	25	40	1,663	2,151
Credit risk in off-balance sheet financial instruments* **	138	164	250	265	4	5	2,880	4,364

* Pursuant to Section 80D(3) of the Public Reporting Directives.
** Based on the balance at the end of each month.
*** As calculated for the purpose of the limit on borrower indebtedness.

Note 33 Interested and Related Parties (continued)

NIS millions

A. Balance sheet balances (continued)

	December 31, 2023					
	Related parties held by the Bank and its consolidated companies					
	Unconsolidated subsidiaries		Equity-basis investees		Others	
	Year-end balance	Highest balance during the year*	Year-end balance	Highest balance during the year*	Year-end balance	Highest balance during the year*
Assets						
Securities	-	-	-	-	**504**	**506**
Credit to the public	-	-	**1,874**	**2,535**	**162**	**185**
Allowance for credit losses	-	-	**(37)**	**(10)**	**(2)**	**(2)**
Net credit to the public	-	-	**1,837**	**2,525**	**160**	**183**
Investments in equity-basis investees	-	-	**1,527**	**1,527**	-	-
Other assets	-	-	**4**	**7**	**1**	**1**
Liabilities						
Deposits from the public	**2**	**6**	**241**	**824**	**20**	**48**
Bonds and subordinated notes	-	-	-	-	-	-
Other liabilities	-	-	**22**	**41**	-	**2**
Shares (included in equity)	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments**	-	-	**2,313**	**2,664**	**58**	**96**

* Based on the balance at the end of each month.
** As calculated for the purpose of the limit on borrower indebtedness.

Note 33 Interested and Related Parties (continued)

NIS millions

A. Balance sheet balances (continued)

	December 31, 2022							
	Interested parties							
	Shareholders		Interested party at the time of the transaction		Officers*		Others	
	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**
Assets								
Securities	-	-	-	-	-	-	-	-
Credit to the public	13	121	508	618	10	15	3,455	5,168
Allowance for credit losses	-	-	(9)	(4)	-	-	(12)	(3)
Net credit to the public	13	121	499	614	10	15	3,443	5,165
Investments in equity-basis investees	-	-	-	-	-	-	-	-
Other assets	409	430	-	1	-	-	1,437	2,865
Liabilities								
Deposits from the public	1,881	2,706	-	-	30	72	18,490	28,329
Bonds and subordinated notes	2	9	-	-	-	-	7	9
Other liabilities	40	168	-	-	40	45	650	2,155
Credit risk in off-balance sheet financial instruments* **	121	231	255	493	4	6	2,979	5,697

* Pursuant to Section 80D(3) of the Public Reporting Directives.
** Based on the balance at the end of each month.
*** As calculated for the purpose of the limit on borrower indebtedness.

Note 33 Interested and Related Parties (continued)

NIS millions

A. Balance sheet balances (continued)

	December 31, 2022					
	Related parties held by the Bank and its consolidated companies					
	Unconsolidated subsidiaries		Equity-basis investees		Others	
	Year-end balance	Highest balance during the year*	Year-end balance	Highest balance during the year*	Year-end balance	Highest balance during the year*
Assets						
Securities	-	-	-	-	506	506
Credit to the public	-	-	2,138	2,402	129	131
Allowance for credit losses	-	-	(9)	(5)	-	-
Net credit to the public	-	-	2,129	2,397	129	131
Investments in equity-basis investees[1]	-	-	1,198	1,198	-	-
Other assets	-	-	1	8	-	-
Liabilities						
Deposits from the public	4	13	619	1,061	119	196
Bonds and subordinated notes	-	-	-	-	-	-
Other liabilities	-	-	17	30	-	4
Credit risk in off-balance sheet financial instruments**	-	-	1,557	2,060	266	553

* Based on the balance at the end of each month.
** As calculated for the purpose of the limit on borrower indebtedness.
(1) Details of this item are also included in Note 15.

Note 33 Interested and Related Parties (continued)

NIS millions

B. Income and expenses in the statement of profit and loss

	For the year ended December 31, 2023						
	Interested parties			Related parties held by the Bank and its consolidated companies			Total
	Shareholders	Officers**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	**(72)**	**(1)**	**(524)**	**-**	**121**	**8**	**(468)**
Income (provision) in respect of credit losses	**-**	**-**	**(45)**	**-**	**(31)**	**(2)**	**(78)**
Non-interest income (expenses)	**169**	**-**	**418**	**-**	**39**	**(17)**	**609**
Of which: management and service fees	**(16)**	**-**	**84**	**-**	**19**	**5**	**92**
Operating and other expenses[2]	**(21)**	**[1](70)**	**(14)**	**(5)**	**(30)**	**(2)**	**(142)**
Of which: interested party employed by or on behalf of the corporation: 21	**-**	**(59)**	**-**	**-**	**-**	**-**	**(59)**
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 10	**-**	**(11)**	**-**	**-**	**-**	**-**	**(11)**
Total	**76**	**(71)**	**(165)**	**(5)**	**99**	**(13)**	**(79)**

* Details in section C below.

** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.

*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.

(1) Short-term employee benefits – NIS 43 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 1 million; share-based payment – NIS 4 million.

(2) Includes donations to non-profit organizations related to a related party of the Bank in the amount of NIS 850 thousand.

Note 33 Interested and Related Parties (continued)

NIS millions

B. Income and expenses in the statement of profit and loss (continued)

	For the year ended December 31, 2022						
	Interested parties			Related parties held by the Bank and its consolidated companies			Total
	Shareholders	Officers**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	(34)	-	(197)	-	61	3	(167)
Income (provision) in respect of credit losses	-	-	(7)	-	19	3	15
Non-interest income (expenses)****	499	-	3,624	-	5	107	4,235
Of which: management and service fees	(7)	-	91	-	10	7	101
Operating and other expenses[2]	(22)	[1](62)	(12)	(10)	(19)	(1)	(126)
Of which: interested party employed by or on behalf of the corporation: 22	-	(50)	-	-	-	-	(50)
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 10	-	(12)	-	-	-	-	(12)
Total	443	(62)	3,408	(10)	66	112	3,957

* Details in section C below.
** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.
*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.
**** Restated.
(1) Short-term employee benefits – NIS 44 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 1 million; share-based payment – NIS 4 million.
(2) Includes donations to non-profit organizations related to a related party of the Bank in the amount of NIS 685 thousand.

Note 33 Interested and Related Parties (continued)

NIS millions

B. Income and expenses in the statement of profit and loss (continued)

	For the year ended December 31, 2021						
	Interested parties			Related parties held by the Bank and its consolidated companies			Total
	Shareholders	Officers**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	(14)	-	(10)	-	6	4	(14)
Income (provision) in respect of credit losses	-	-	(2)	-	(2)	-	(4)
Non-interest income (expenses)****	(140)	-	52	-	15	6	(67)
Of which: management and service fees	-	-	76	-	2	4	82
Operating and other expenses[2]	(23)	[1](49)	(7)	(9)	(17)	(1)	(106)
Of which: interested party employed by or on behalf of the corporation: 17	-	(39)	-	-	-	-	(39)
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 8	-	(10)	-	-	-	-	(10)
Total	(177)	(49)	33	(9)	2	9	(191)

* Details in section C below.
** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.
*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.
**** Restated.
(1) Short-term employee benefits – NIS 34 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 1 million; share-based payment – NIS 4 million.
(2) Includes donations to non-profit organizations related to a related party of the Bank in the amount of NIS 472 thousand.

Note 33 Interested and Related Parties (continued)

NIS millions

C. Net interest income in transactions with interested and related parties

	2023	2022	2021
Income (expenses)			
In respect of assets			
From credit to the public	**243**	102	26
From deposits with banks	**-**	-	-
From securities borrowed or purchased under agreements to resell	**-**	-	-
From bonds	**-**	-	-
From other assets	**-**	-	1
In respect of liabilities			
On deposits from the public	**(711)**	(267)	(39)
On deposits from banks	**-**	-	-
On securities borrowed or purchased under agreements to repurchase	**-**	-	-
On bonds and subordinated notes	**-**	(2)	(2)
On other liabilities	**-**	-	-
Other			
Financing transaction fees	**-**	-	-
Other financing income	**-**	-	-
Total	**(468)**	(167)	(14)

Note 34 Condensed Financial Statements of the Bank

NIS millions

A. Condensed statement of profit and loss

	2023	2022	2021
Interest income	**32,922**	19,183	11,624
Interest expenses	**(17,054)**	(5,799)	(1,931)
Net interest income	**15,868**	13,384	9,693
Provision (income) for credit losses	**1,879**	(28)	(1,217)
Net interest income after provision for credit losses	**13,989**	13,412	10,910
Non-interest income			
Non-interest financing income	**1,009**	623	588
Fees	**3,782**	3,560	3,221
Other income	**97**	63	117
Total non-interest income	**4,888**	4,246	3,926
Operating and other expenses			
Salaries and related expenses	**4,409**	4,298	4,227
Maintenance and depreciation of buildings and equipment	**1,533**	1,441	1,322
Other expenses	**2,149**	2,065	1,946
Total operating and other expenses	**8,091**	7,804	7,495
Profit before taxes	**10,786**	9,854	7,341
Provision for taxes on profit	**3,834**	3,482	2,778
Profit after taxes	**6,952**	6,372	4,563
The Bank's share in profits (losses) of other affiliates	**408**	160	351
Net profit (loss)			
Attributed to shareholders of the Bank	**7,360**	6,532	4,914

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

B. Condensed balance sheet

	December 31	
	2023	2022
Assets		
Cash and deposits with banks	**107,602**	133,236
Securities	**123,123**	102,073
Securities borrowed or purchased under agreements to resell	**4,723**	898
Credit to the public	**414,375**	394,089
Allowance for credit losses	**(6,994)**	(5,510)
Net credit to the public	**407,381**	388,579
Credit to governments	**3,175**	2,157
Investments in other affiliates	**10,007**	11,019
Buildings and equipment	**3,510**	3,350
Assets in respect of derivative instruments	**25,230**	21,826
Other assets	**5,732**	5,966
Total assets	**690,483**	669,104
Liabilities and capital		
Deposits from the public	**558,968**	543,928
Deposits from banks	**9,200**	8,673
Deposits from the government	**2,436**	3,262
Securities lent or sold under agreements to repurchase	**6,279**	13,877
Bonds and subordinated notes	**21,800**	19,701
Liabilities in respect of derivative instruments	**24,240**	19,040
Other liabilities	**15,130**	14,121
Total liabilities	**638,053**	622,602
Capital	**52,430**	46,502
Total liabilities and capital	**690,483**	669,104

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

C. Condensed statement of cash flows

	2023	2022	2021
Cash flows from (for) operating activity			
Net profit for the year	**7,360**	6,532	4,914
Adjustments necessary to present cash flows from operating activity			
The Bank's share in losses (profits) of affiliates	**(408)**	(160)	(351)
Depreciation of buildings and equipment (including impairment)	**795**	706	591
Provision (income) for credit losses	**1,879**	(28)	(1,217)
Loss (gain) from sale and impairment of bonds available for sale	**592**	60	(179)
Realized and unrealized loss (gain) from adjustments to fair value of bonds held for trading	**(25)**	19	54
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	**(121)**	60	(68)
Gain from realization of buildings and equipment	**(71)**	(46)	(92)
Change in benefit due to share-based payment transactions*	**13**	12	16
Net change in liabilities in respect of employee benefits	**74**	(29)	(7)
Deferred taxes, net	**(510)**	(71)	590
Loss (gain) from sale of credit portfolios	**-**	6	-
Dividends received from affiliates	**1,528**	3,585	-
Adjustments in respect of exchange-rate differences	**15**	(1,431)	559
Accumulation differentials included in investing and financing activities	**(4,502)**	(5,387)	645
Net change in current assets			
Assets in respect of derivative instruments	**(3,404)**	(8,843)	1,902
Securities held for trading	**(9,058)**	3,715	1,854
Other assets	**685**	(1,056)	243
Net change in current liabilities			
Liabilities in respect of derivative instruments	**5,200**	4,693	(2,453)
Other liabilities*	**631**	835	(1,865)
Net cash from (for) operating activity	**673**	3,172	5,136

* Reclassified.

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

C. Condensed statement of cash flows (continued)

	2023	2022	2021
Cash flows from (for) investing activity			
Deposits with banks	**88**	69	249
Credit to the public	**(18,007)**	(32,520)	(46,623)
Credit to governments	**(1,024)**	(172)	225
Securities borrowed or purchased under agreements to resell	**(3,825)**	355	(885)
Acquisition of bonds held to maturity	**(5,314)**	(5,863)	(190)
Proceeds from redemption of bonds held to maturity	**183**	-	115
Acquisition of bonds available for sale	**(65,844)**	(62,676)	(28,670)
Proceeds from sale of bonds available for sale	**42,543**	23,434	21,194
Proceeds from redemption of bonds available for sale	**22,873**	10,429	5,688
Acquisition of credit portfolios	**(315)**	(1,132)	(472)
Proceeds from sale of credit portfolios	**942**	1,606	-
Investments in affiliates	**(2,103)**	(1,082)	-
Proceeds from realization of investments in affiliates	**3**	148	-
Acquisition of buildings and equipment	**(966)**	(687)	(879)
Proceeds from realization of buildings and equipment	**84**	60	141
Net cash from (for) investing activity	**(30,682)**	(68,031)	(50,107)
Cash flows from (for) financing activity			
Deposits from banks	**527**	(3,050)	5,036
Deposits from the public	**18,065**	(4,732)	84,929
Deposits from the government	**(826)**	2,510	(9)
Securities lent or sold under agreements to repurchase	**(7,598)**	10,458	3,419
Issuance of bonds and subordinated notes	**384**	6,568	8,123
Redemption of bonds and subordinated notes	**(3,643)**	(3,239)	(3,690)
Dividend paid to shareholders of the Bank	**(2,431)**	(939)	(1,479)
Net cash from (for) financing activity	**4,478**	7,576	96,329
Increase (decrease) in cash	**(25,531)**	(57,283)	51,358
Balance of cash at beginning of year	**132,622**	188,474	137,675
Effect of changes in exchange rates on cash balances	**(15)**	1,431	(559)
Balance of cash at end of year	**107,076**	132,622	188,474

Interest and taxes paid and/or received			
Interest received	**26,232**	15,161	10,052
Interest paid	**(14,319)**	(3,628)	(1,144)
Dividends received	**1,520**	3,586	-
Income tax paid	**(3,748)**	(2,260)	(1,596)
Income tax received	**285**	244	-

Note 35 Impacts of the Swords of Iron War

On October 7, 2023, the organization Hamas mounted a lethal terrorist attack on the State of Israel, consisting of rocket launches, a land invasion of military bases and civilian communities, and the murder and abduction of civilians and soldiers. The State of Israel declared a state of war and an extensive call-up of reserve military forces, which at the report date has continued, on a reduced scale relative to the beginning of the war. At the date of the report, the military is fighting within the Gaza Strip; over 100 hostages are being held by Hamas; exchanges of fire are occurring in northern Israel, with no land campaign; and in the Red Sea, Houthis are impairing the freedom of navigation and attempting to attack southern Israel. The war, particularly to the extent that it is prolonged and/or expands to additional fronts, has the potential to exert a negative effect on the Israeli economy, the customers of the Bank, and the Bank itself. Potential risks include a possible decline in private consumption; a decrease in investments in the economy, including foreign investments and investments in the high-technology industry; a decrease in GDP; a significant budget deficit; downgrades of the credit rating of the state; an increase in the risk premium of the state; a decrease in revenues in some economic sectors; damage to the tourism and construction industries; a decrease in real-estate prices; an increase in unemployment; damage to businesses; an increase in allowances for credit losses, as a result of these factors; market shocks, including depreciation; capital-market declines; changes in yield curves and in the interest rate of the central bank, affecting profitability; and more. In terms of credit risk, the Bank is regularly examining its exposure to the regions most affected by the fighting, the developments in past-due loan payments of private and business customers, and its exposure to economic industries and sectors expected to be significantly hurt. The Bank cannot estimate the duration or developments of the war, and correspondingly the extent of damage in each of these areas, including in connection with the payment deferrals. The impacts of the developments in economic conditions, as estimated by the Bank at this time, were reflected in the calculation of the collective allowance, and led to an increase in the provision for credit losses. The total provision for credit losses in the fourth quarter of 2023 was NIS 453 million, further to a provision for credit losses in the amount of NIS 662 million in the third quarter. Most of the provisions are in respect of the increase in the collective allowance, which mainly resulted from the effect of macroeconomic forecasts, particularly the predicted effects of the Swords of Iron War.

Note 35 Impacts of the Swords of Iron War (continued)

To help customers cope with the impacts of the war, when the war began the Bank announced a series of significant benefits, differentiating customers directly affected by the war from the rest of the population. These measures include benefits in line with the outline issued by the Banking Supervision Department, for a period of three months (which has been extended by an additional three months, to the first quarter of 2024), as well as additional benefits beyond the outline. The estimated total amount of the aforesaid benefits, at this stage, will be affected by the rate of their utilization by customers, and may reach approximately NIS 470 million with full utilization of the benefits. Benefits utilized as at December 31, 2023, total approximately NIS 159 million. In addition, after the balance-sheet date, up to near the date of publication of the financial statements, benefits in the amount of approximately NIS 59 million were utilized. The benefits are recorded to profit and loss as exercised by customers. On March 4, 2024, the Banking Supervision Department announced an extension and expansion of the outline of reliefs for coping with the impacts of the war, for a period of three additional months, beginning April 1, 2024. The Bank is examining the implications of the aforesaid extension and expansion.

The Bank is continuing to examine its policy regarding the benefits, and may extend them, taking into consideration the continuation and/or expansion of the war and/or regulatory outlines. For additional information, see Note 1.D.1 on the subject of accounting policies and Note 29 on the subject of credit losses.

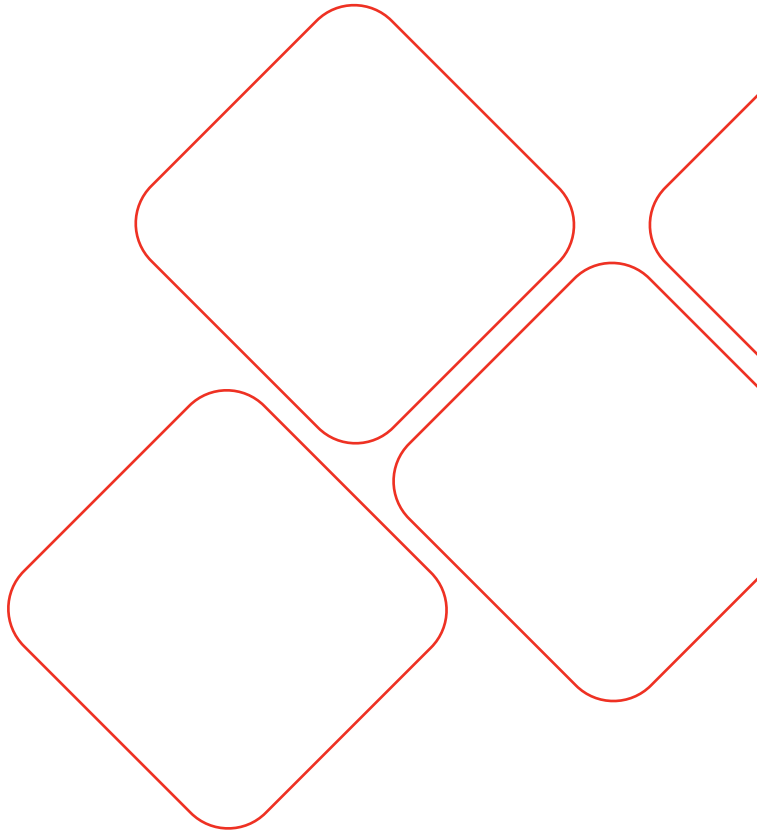
The Bank has decided to grant aid in the amount of up to NIS 100 million, through the foundation of the Poalim Rebuild Fund, to help restore the community life of the families and businesses of the Otef Aza region. Grants are planned to be distributed within three years of the foundation of the fund, with costs to be recorded to profit and loss over this period, at the pace exercised.

At this stage, the events that have occurred to date have had no material effect on the capital, leverage, or liquidity ratios of the Bank.

Bank Hapoalim

Corporate Governance,
Additional Information and Appendices





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6. Corporate governance

6.1. The Board of Directors and the Board of Management

Members of the Board of Directors of the Bank*

Ruben Krupik	Chairman of the Board; external director pursuant to Directive 301
David Avner	External director pursuant to the Companies Law
Ronit Abramson-Rokach	External director pursuant to the Companies Law
Noam Hanegbi	External director pursuant to Directive 301
Israel Trau	Director
Dalia Lev	External director pursuant to the Companies Law
Odelia Levanon	Director
Yoel Mintz	External director pursuant to Directive 301
David Zvilichovsky	Director
Ronit Schwartz	Director

Activity of the Board of Directors

36 meetings of the Board of Directors of the Bank in plenary session and 86 meetings of the committees of the Board of Directors were held in the course of 2023, as well as three tour days of the members of the Board of Directors.

Ten directors serve on the Board of Directors of the Bank.

For details regarding expected changes in the composition of the Board of Directors, see the section "Other matters," below.

Report on directors with accounting and financial expertise

In December 2022, the Board of Directors of the Bank determined that the minimum number of directors with accounting and financial expertise would be three, and that the minimum number of directors with accounting and financial expertise who should be members of the Audit Committee was two. This takes into consideration the duties of the Board of Directors of the Bank, and in particular its responsibility for the preparation and approval of the financial statements of the Bank, given the size of the Bank and the complexity of its operations, and the high importance accorded to the functioning of the control functions at the Bank and the supervision thereof.

Based on their education, experience, skills, and knowledge, and as estimated by the Board of Directors, eight directors with accounting and financial expertise serve on the Board of Directors of the Bank: Ruben Krupik, David Avner, Ronit Abramson-Rokach, Dalia Lev, Israel Trau, David Zvilichovsky, Yoel Mintz, and Ronit Schwartz. For details regarding the education, occupation, and experience of these directors, see Standard 26 of the Periodic Report.

Four directors with accounting and financial expertise serve on the Audit Committee.

* For additional details regarding the members of the Board of Directors of the Bank, their education, occupations, and experience (including the accounting and financial expertise of some of the directors), the committees of the Board of Directors on which they serve, additional corporations at which they serve, and more, see Standard 26 of the Periodic Report and the Magna website of the Israel Securities Authority: http://www.magna.isa.gov.il.

Members of the Board of Management of the Bank*

Dov Kotler	President and Chief Executive Officer
Amit Oberkovich	Head of Human Resources
Yael Almog	Chief Legal Advisor
Eti Ben-Zeev	Head of Information Technology
Merav Ben Shushan Cohen	Chief Risk Officer (CRO)
Ram Gev	Chief Financial Officer (CFO)
Zeev Hayo	Head of Banking Services
Guy Kalif	Member of the Board of Management, Chief Accountant
Yadin Antebi	Head of Financial Markets and International Banking
Itamar Furman	Head of Corporate Banking
Dalit Raviv	Head of Retail Banking

Chief Internal Auditor –

Amir Bachar	Head of Internal Audit in Israel and Abroad

6.2. Internal audit

Information regarding the Internal Auditor – Dr. Amir Bachar, Adv., serves as Chief Internal Auditor of the Bank as of June 1, 2022, in a full-time position, with the rank of a Member of the Board of Management. Dr. Bachar has worked at the Bank Group since 2010; prior to his appointment to the office of auditor, he served as Chief Risk Officer. Dr. Bachar is licensed in law in Israel; holds a B.A. degree in Law and Economics, an M.A. degree in Economics, and a Ph.D. in Law from the Hebrew University of Jerusalem; has experience in the areas of banking; and meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 1992 (the "Internal Audit Law"). The Internal Auditor is not an interested party of the Bank or its subsidiaries, and holds no other office in addition to his position as Chief Internal Auditor of the Bank. The appointment and termination of internal audit employees are subject to approval by the Chief Internal Auditor; audit employees receive instructions on audit-related matters only from the Chief Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing.

Appointment method – The appointment of the Internal Auditor was approved by the Board of Directors of the Bank on February 27, 2022, following the recommendation and approval of the Audit Committee on February 27, 2022, which cited considerations including his professional qualifications, personal qualities, education, and experience.

Superior officer of the Internal Auditor – The Chief Internal Auditor reports organizationally to the Chairman of the Board of Directors.

* For additional details regarding the members of the Board of Management and additional officers, see Standard 26A of the Periodic Report and the section "Other matters," below, and the Magna website of the Israel Securities Authority: http://www.magna.isa.gov.il.

Work plan – Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2023 was derived from the multi-year plan, which is based on the following, among other matters: risk assessment at audited units; a risk survey; the current organizational structure of the Bank; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Bank's senior managers and other management functions, as well as the external auditors. The audit work plan at the Bank's subsidiaries was established in a similar manner; the Bank's Internal Audit unit provides auditing services to most subsidiaries. The audit work plan also includes examination of the approval processes of material transactions, all based on a comprehensive perspective focusing on risks.

Following the formulation of the audit work plan by Internal Audit, the plan was submitted for discussion and approval by the Audit Committee; subsequently, taking the committee's recommendations into consideration, the plan was discussed and approved by the Board of Directors.

The Chief Internal Auditor has the discretion to diverge from the work plan in response to changing, unexpected needs. Among other matters, the work plan includes resource allocation for audits of special events and unplanned audits, including audits by demand of authorized parties, such as the Board of Directors, the Audit Committee, Bank management officials, and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors.

The internal audit work plan also addresses the Bank's activity overseas through branches and representative offices, and the Bank's subsidiaries in Israel. As a result of the return of the banking license of Hapoalim Switzerland and the sale of the holding in Bank Pozitif in Turkey, the activity of the internal-audit function at these subsidiaries ended during the third quarter of 2023. At the date of the report, an internal-audit function outside Israel exists only at the New York branch, through a local internal auditor reporting to the Chief Internal Auditor of the Bank.

Internal Audit in Israel performs oversight and ensures that the internal auditing is executed at an adequate professional level, as required under Proper Conduct of Banking Business Directive 307, "The Internal Audit Function," and Proper Conduct of Banking Business Directive 306, "Supervision of Overseas Branches."

In 2023, auditing in Israel and at the local audit unit at the New York branch continued to operate in accordance with the expanded audit plan (EAP) submitted in late July 2020 to the United States authorities, as required under the resolutions of the Bank with the United States authorities.

The EAP addresses auditing in the following areas, among other matters: compliance, prohibition of money laundering, and activity with American customers.

In general, the subsidiaries in Israel receive internal audit services from Internal Audit at the Bank.

Manpower – The number of positions in Internal Audit was determined in accordance with the multi-year work plan, based on a risk survey. The Internal Audit team at the Bank, its subsidiaries, and its overseas offices numbered an average of approximately 108 employee positions and 8 outsourced positions in 2023, as detailed below.

Table 6-1: Average number of positions of Internal Audit staff

	Average number of employee positions in 2023		
	Bank	Subsidiaries	Total
Activity in Israel	**98**	**1**	**99**
Activity overseas	**7**	**2**	**9**
Total	**105**	**3**	**108**

In addition, approximately 8 positions were invested in outsourcing.

Performing audits – Internal Audit at the Bank operates under laws; regulations; directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307, "The Internal Audit Function"; professional standards; professional guidelines of the Institute of Internal Auditors in Israel; and guidelines of the Audit Committee and of the Board of Directors.

Having examined the Internal Audit work plan and the actual execution of said plan, the Board of Directors and the Audit Committee believe, also based on the statement of the Internal Auditor, that the Bank's internal auditing complies with the requirements established in the professional standards and in the directives of the Supervisor of Banks.

Access to information – Internal Audit has unrestricted access to all information at the Bank, including continuous unmediated access to the Bank's information systems, including financial data, as necessary to perform its duties. This authority is anchored in the audit charter and procedures.

This policy is applied to the activity of the Bank in Israel, overseas, and at its subsidiaries, with adjustments to local regulatory requirements, as relevant.

Internal Auditor's report – Internal audit reports, including periodic reports, are submitted in writing.

A list of all audit reports published during the preceding month is presented to the Board of Directors' Audit Committee each month, after being submitted to the Chairperson of the Audit Committee. Audit reports are presented to the Chairman of the Board of Directors, the Chairperson of the Audit Committee, and the CEO of the Bank. All of the summaries of the reports are also distributed to members of the Audit Committee, and substantial audit reports are discussed in meetings of the committee.

In 2023, semiannual and annual summaries reviewing internal audit activities during the reported period were presented to and discussed by the Board of Directors' Audit Committee. A summary of audit activities for 2022 was distributed to the Audit Committee on March 8, 2023, and discussed by the committee on March 12, 2023. A summary of audit activities in the first half of 2023 was distributed to the Audit Committee on September 10, 2023, and discussed by the committee on September 13, 2023. A summary of audit activities in 2023 is planned to be discussed by the Audit Committee by the end of the first quarter of 2024.

Evaluation of the activity of the Internal Auditor by the Board of Directors – In the opinion of the Board of Directors and of the Audit Committee, the volume, nature, continuity of activity, and work plan of Internal Audit are reasonable under the circumstances, and are sufficient to realize the Bank's internal auditing objectives.

Remuneration – For details regarding the remuneration of Dr. Amir Bachar (who, as noted, has served as Chief Internal Auditor since June 2022), see Section 6.5 herein, below.

The salary, salary terms, and terms of employment of the Internal Auditor are approved by the Remuneration Committee and by the Board of Directors, based on the recommendation of the Audit Committee. The remuneration of the Auditor is appropriate to his office and based on the prevalent principles also used for the remuneration of the members of the Board of Management (defined as control functions). In the opinion of the Board of Directors, the remuneration of the Internal Auditor is not such that would bias his professional judgment.

6.3. Disclosure regarding the procedure for approval of the financial statements

The Board of Directors of the Bank is the organ charged with overarching control at the Bank, and with the approval of its financial statements. The Audit Committee of the Board of Directors discusses and examines the drafts of the financial statements presented to it and makes a recommendation to the Board of Directors with regard to the approval of the financial statements. The Audit Committee received reports and held discussions regarding deficiencies and material weaknesses in internal control over the financial statements, if and as found, and received reports of any fraud, whether material or immaterial, if and inasmuch as any existed, in which the Board of Management is involved, or in which other employees are involved who take part in the Bank's internal control over financial reporting. The Audit Committee examined the material issues and critical estimates applied in the financial statements; the reasonableness of the data; the accounting policies applied and the changes thereto, if any; and the accounting treatment applied to material matters. The committee also examined the implementation of the due-disclosure principle in the financial statements and in the accompanying information, through detailed presentation of the issues by officers and others at the Bank, including the Chief Executive Officer and the Chief Accountant, and examined the effectiveness of the internal control over financial reporting.

As part of the discussion of the financial statements, the Audit Committee discussed, among other matters, the problematic debts of the Bank, examined the value of the Bank's holdings in securities, and discussed the provision for impairment of securities and provision for credit losses of the Bank. In addition, the Audit Committee discussed and examined the Bank's exposures to risks and the reflection and impact of such risks on the financial statements.

The Bank's external auditors, Ziv Haft CPA (Isr.) and Somekh Chaikin CPA (Isr.), are invited to the meetings of the Audit Committee in which the financial statements are discussed (to which the other members of the Board of Directors are also invited), and to the meetings of the Board of Directors in which the financial statements are discussed and approved, and they attend all such meetings. The Bank's Internal Auditor is invited to the discussions of the Audit Committee and the Board of Directors regarding the approval of the financial statements.

For additional information regarding the procedure for the approval of the financial statements, see the Corporate Governance Questionnaire, Sections 25, 26, and 27.

6.4. Remuneration of auditors[1][2][3]

Table 6-2: Remuneration of auditors

	Consolidated		Bank	
	2023	2022	**2023**	2022
	NIS thousands			
For auditing activity[4]				
Joint auditors	**17,534**	18,152	**14,651**	13,147
For audit-related services[5]				
Joint auditors	**5,720**	*5,642	**5,642**	*4,615
For tax services[6]				
Joint auditors	**3,319**	3,276	**3,286**	3,112
For other services[7]				
Joint auditors	**5,772**	*4,147	**4,532**	*3,319
Total remuneration of auditors	**32,345**	31,217	**28,111**	24,193

* Reclassified.
(1) Report by the Board of Directors to the annual general meeting on the remuneration of auditors for audit activities.
(2) The remuneration of the external auditors includes payments to partnerships and corporations under their control, as well as payments in accordance with the Value Added Tax Law.
(3) Including remuneration paid and accrued remuneration.
(4) Audit of the annual financial statements and review of interim reports, including an audit of the internal control of financial reporting (SOX 404) and a review of the Bank's overseas branches.
(5) Audit-related fees mainly include consultation regarding the implementation of new regulation, special examinations, prospectuses, and special approvals.
(6) Mainly includes tax adjustment reports, tax assessment discussions, and tax consulting in Israel and abroad.
(7) Mainly includes assistance with preparation of the Corporate Social Responsibility Report and consulting on the prohibition of money laundering.

In 2022, the Audit Committee adopted a policy with regard to the receipt of non-audit services from the external auditors, aimed at preserving the objectivity and non-dependence of the external auditors. Among other matters, the policy includes periodic monitoring and oversight by the Audit Committee of the additional services received.

6.5. Remuneration for interested parties and senior officers

The remuneration policy for officers of the Bank for 2021-2023, which is aligned with the directives of the Financial Corporations Officer Remuneration Law (Special Approval and Non-Deduction of Expenses for Tax Purposes due to Exceptional Remuneration), 2016 (the "Remuneration Limit Law"), was approved by the general meeting in October 2020. For further details regarding the remuneration policy and the terms of service of the officers, see Notes 22 and 23 to the Financial Statements.

Salaries, compensation, value of benefits, and employer payments and provisions for the senior office-holders of the Bank Group are set out below (in NIS thousands).

Table 6-3: Details of salaries, compensation, value of benefits, employer payments, and provisions for the senior officers of the Bank Group (in NIS thousands)

		2023							
Name	Position	Rate of holdings in the capital of the Bank (%)	Salaries[1]	Bonuses	Benefit in respect of share-based payment	Value of additional benefits[2]	Employer payments and provisions[3]	Total remuneration pursuant to Regulation 21[4][5]	Loans granted with regular terms[6]
Krupik Ruben	Chairman of the Board of Directors	-	3,099	-	-	-	-	3,099	197
Dov Kotler	President and Chief Executive Officer	*0.0	2,650	588	112	12	443	3,805	16
Barry Elram	CEO of Hapoalim Switzerland	-	[7]2,149	808	-	[7]410	248	3,615	90
Yadin Antebi	Member of the Board of Management	0.02	1,826	725	374	12	707	3,644	42
Amir Bachar	Member of the Board of Management	*0.0	1,746	676	374	91	472	3,359	242
Eti Ben-Zeev	Member of the Board of Management	0.01	1,826	686	374	22	366	3,274	22
Yael Almog	Member of the Board of Management	*0.0	1,746	655	374	86	286	3,147	37

* Low holding rate of 0.01 percent.

(1) Also includes payments classified as fixed remuneration that does not grant entitlement to benefits, as detailed in Note 22 to the Financial Statements.

(2) Includes payments for vehicle expenses, daily allowances, and gross-up.

(3) Includes provisions for severance pay, compensation, pensions, study funds, vacation, National Insurance, and sick days, as well as unforeseen expenses (income) due to actuarial adjustments recorded to the capital reserve. It is clarified that employer payments and provisions (and accordingly the total cost of remuneration) do not include the interest cost in respect of actuarial liabilities (the interest component, which is stated, in accordance with accounting standards, within the item "other expenses"). The following are details of the unforeseen expense due to actuarial adjustments recorded to the capital reserve: Dov Kotler – negative adjustment in the amount of NIS 7 thousand; Yadin Antebi – adjustment in the amount of NIS 357 thousand; Amir Bachar – adjustment in the amount of NIS 102 thousand; Eti Ben-Zeev – adjustment in the amount of NIS 1 thousand; Yael Almog – negative adjustment in the amount of NIS 13 thousand.

(4) Excluding wage tax.

(5) Total wages and related expenses pursuant to the Remuneration Limit Law,** as follows: Dov Kotler – NIS 3,414 thousand; Barry Elram – not subject to the Remuneration Limit Law; Yadin Antebi – NIS 3,014 thousand; Amir Bachar – NIS 2,988 thousand; Eti Ben-Zeev – NIS 3,004 thousand; Yael Almog – NIS 2,891 thousand.

** Does not include wage tax, an unforeseen expense due to actuarial adjustments recorded to the capital reserve, and provisions for past benefits accrued before the inception of the Remuneration Limit Law, and does not include employer contributions and provisions for severance pay and compensation (including disability) in accordance with the law, which are not included in the definition of "remuneration" for the purposes of the Remuneration Limit Law.

(6) Includes loans, housing loans, and charges in respect of credit cards.

(7) Includes tax paid in Israel through tax gross-up and retention of employee rights (payment of the employer component of National Insurance). Tax gross-up in Israel constitutes a taxable benefit in Switzerland, in respect of which Mr. Elram was required to pay additional tax and national insurance in Switzerland. The Bank will bear the additional payment for national insurance in Switzerland and the additional tax payment in Switzerland if Mr. Elram is not reimbursed by the Israel Tax Authority.

Table 6-3: Details of salaries, compensation, value of benefits, employer payments, and provisions for the senior officers of the Bank Group (in NIS thousands) (continued)

		2022							
Name	Position	Rate of holdings in the capital of the Bank (%)	Salaries[1]	Bonuses	Benefit in respect of share-based payment	Value of additional benefits[2]	Employer payments and provisions[3]	Total remuneration pursuant to Regulation 21[4][5]	Loans granted with regular terms[6]
Ruben Krupik	Chairman of the Board of Directors	-	2,955	-	-	-	-	2,955	229
Dov Kotler	President and Chief Executive Officer	*0.0	2,531	244	109	13	394	3,291	65
Barry Elram	CEO of Hapoalim Switzerland	-	[7]2,097	351	-	[7]464	282	3,194	264
Yael Almog	Member of the Board of Management	*0.0	1,667	723	362	82	327	3,161	46
Amir Bachar	Member of the Board of Management	*0.0	1,575	718	341	90	257	2,981	273
Ram Gev	Member of the Board of Management	*0.0	1,471	686	325	68	317	2,867	19
Dalit Raviv	Member of the Board of Management	*0.0	1,471	682	325	91	281	2,850	649

* Low holding rate of 0.01 percent.

(1) Also includes payments classified as fixed remuneration that does not grant entitlement to benefits, as detailed in Note 22 to the Financial Statements.

(2) Includes payments for vehicle expenses, daily allowances, and gross-up.

(3) Includes provisions for severance pay, compensation, pensions, study funds, vacation, National Insurance, and sick days, as well as unforeseen expenses (income) due to actuarial adjustments recorded to the capital reserve. It is clarified that employer payments and provisions (and accordingly the total cost of remuneration) do not include the interest cost in respect of actuarial liabilities (the interest component, which is stated, in accordance with accounting standards, within the item "other expenses"). The following are details of the unforeseen expense due to actuarial adjustments recorded to the capital reserve: Dov Kotler – negative adjustment in the amount of NIS 57 thousand; Yael Almog – adjustment in the amount of NIS 10 thousand; Amir Bachar – negative adjustment in the amount of NIS 45 thousand; Ram Gev – adjustment in the amount of NIS 14 thousand; and Dalit Raviv – negative adjustment in the amount of NIS 60 thousand.

(4) Excluding wage tax.

(5) Total wages and related expenses pursuant to the Remuneration Limit Law,** as follows: Dov Kotler – NIS 2,955 thousand; Barry Elram – not subject to the Remuneration Limit Law; Yael Almog – NIS 2,889 thousand; Amir Bachar – NIS 2,778 thousand; Ram Gev – NIS 2,633 thousand; Dalit Raviv – NIS 2,675 thousand.

** Does not include wage tax, an unforeseen expense due to actuarial adjustments recorded to the capital reserve, and provisions for past benefits accrued before the inception of the Remuneration Limit Law, and does not include employer contributions and provisions for severance pay and compensation (including disability) in accordance with the law, which are not included in the definition of "remuneration" for the purposes of the Remuneration Limit Law.

(6) Includes loans, housing loans, and charges in respect of credit cards.

(7) Includes tax paid in Israel through tax gross-up and retention of employee rights (payment of the employer component of National Insurance). Tax gross-up in Israel constitutes a taxable benefit in Switzerland, in respect of which Mr. Elram was required to pay additional tax and national insurance in Switzerland. The Bank will bear the additional payment for national insurance in Switzerland and the additional tax payment in Switzerland if Mr. Elram is not reimbursed by the Israel Tax Authority.

General notes

The recipients of the remuneration are employed in full-time (100%) positions.

All employees of the Bank, including officers of the Bank (with the exception of the directors and the Chairman), enjoy various benefits in the management of their bank accounts. The benefits mainly refer to an exemption from fixed account-management fees, fees for recording transactions in accounts, information printouts, checkbooks, securities custody, cash withdrawals, money transfers to other accounts, and credit-card membership fees. In addition, there are benefits in the form of reduced fee rates for buying and selling securities and foreign currency, standing instructions for payments executed through the account, and safe-deposit box rentals. Further, like all other employees of the Bank, the officers (with the exception of the directors and the Chairman) enjoy preferred interest rates on credit and debit balances in current accounts. The entire range of benefits given to officers totals negligible amounts, which do not exceed a total of NIS 50 thousand per year for each officer.

For further details regarding lateral remuneration components (including share-based payment) to which all members of the Board of Management of the Bank are entitled, including retirement terms, bonuses, etc., and with regard to the remuneration plan and the effects of the Remuneration Limit Law, see Notes 22 and 23 to the Financial Statements.

For additional information in accordance with the detailed disclosure requirements of Basel Pillar 3, see the disclosure published on the Bank's website and on the Magna website.

Bonuses in respect of 2023, which were approved by the Remuneration Committee and the Board of Directors of the Bank, were determined in accordance with the remuneration policy and plan. The component of the performance of the Bank was determined according to the return on equity attained in relation to the target range of returns, which was updated by the Board of Directors at the beginning of the year to be more severe than stated in the remuneration policy.

The discussions of the Board of Directors regarding bonuses for officers were preceded by preliminary discussions of this matter by the Remuneration Committee. In discussions held as noted, specific criteria established in advance according to the officer's position were examined, separately for each officer (particularly with regard to officers in supervision and control functions), as well as the officer's fulfillment of these criteria, the congruence of the remuneration of the officer with the directives of the remuneration policy, and compliance with the directives of the Remuneration Limit Law.

The terms of service and employment of the officers serving at the Bank are consistent with the employment agreements with the officers, which were lawfully approved by the organs of the Bank; with the remuneration policy and remuneration plan of the Bank that were in effect in 2022 and 2023; and with the directives of the Remuneration Limit Law, the Companies Law, and Directive 301A of the Supervisor of Banks concerning remuneration policy at banking corporations. For further details, see Notes 22 and 23 to the Financial Statements.

Mr. Ruben Krupik

Mr. Ruben Krupik was elected to serve as Chairman of the Board of Directors of the Bank (the "Chairman") on June 28, 2020. The appointment was approved by the Supervisor of Banks on July 28.

In April 2022, the Banking Supervision Department issued an update of Proper Conduct of Banking Business Directives 301 and 301A concerning the duties of the chairperson of the board of directors and the terms of service of chairpersons of boards of directors of banks without a controlling core. Updated terms of service for the Chairman of the Board, consistent with the updated supervisory directives, were approved by the general meeting on August 11, 2022. The updated terms of service are in effect as of the beginning of 2022, and as long as Mr. Krupik serves in the office of Chairman (his term of service as a director ends in February 2025). For further details regarding the terms of service of the Chairman, see Note 22.C.2 to the Financial Statements and the section "Other matters" herein.

Mr. Dov Kotler

Mr. Dov Kotler took office as CEO of the Bank on October 1, 2019. With regard to the terms of remuneration and employment of Mr. Kotler from the beginning of his service to the end of 2020, see the General Meeting Summons Report of November 20, 2019, reference no. 2019-01-112810. On October 22, 2020, the general meeting approved an amendment of the terms of remuneration of the CEO, applicable from January 2021 to December 31, 2023. On October 8, 2023, the general meeting approved an amendment of the terms of remuneration of the CEO, applicable from January 2024 to December 31, 2026. For further details, see Note 22.C.3 to the Financial Statements.

Mr. Barry Elram

Mr. Barry Elram served as CEO of Hapoalim Switzerland from October 1, 2018, to August 2023; since then, he has served as a director at Hapoalim Switzerland.

Ms. Yael Almog

Ms. Yael Almog serves as Senior Deputy Managing Director, Chief Legal Advisor of the Bank, as of March 1, 2018. Her current employment agreement ends on June 30, 2025.

Mr. Amir Bachar

Mr. Amir Bachar has served as Chief Internal Auditor of the Bank, with the rank of a Member of the Board of Management, as of March 2022. His current employment agreement ends on March 31, 2025.

Mr. Ram Gev

Mr. Ram Gev serves as a Senior Deputy Managing Director at the Bank as of January 2020, in the position of Chief Financial Officer. His current employment agreement ends on December 31, 2025.

Ms. Dalit Raviv

Ms. Dalit Raviv serves as Senior Deputy Managing Director, Head of Retail Banking, as of December 1, 2019. Her current employment agreement ends on December 31, 2025.

Ms. Eti Ben-Zeev

Ms. Eti Ben-Zeev serves as Senior Deputy Managing Director, Head of Information Technology, as of February 2016. Her current employment agreement ends on March 31, 2027.

Mr. Yadin Antebi

Mr. Yadin Antebi serves as a Senior Deputy Managing Director at the Bank as of August 2013, and as Head of Financial Markets and International Banking as of June 2018. His current employment agreement ends on June 30, 2024.

6.6. Other matters

In June 2023, the Bank entered into an agreement for the merger with and into the Bank of several subsidiaries under its full control and ownership (or nearly full, other than the holding of a few shares at a negligible rate), without consideration (other than negligible amounts to be held in trust for the few shares of some of the companies not held by the Bank). The merger was completed on November 19, 2023, and is in effect as of June 30, 2023. In June 2023, the Bank also entered into an agreement for the merger with and into the Bank, without consideration, of Hapoalim Hanpakot, a wholly owned subsidiary that served as its funding arm for debt instruments. This merger was completed on September 26, 2023.

In addition, the Bank completed the merger of three companies with and into another company in the Group. This merger is in effect as of September 30, 2023.

In June 2023, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (the "Relief Regulations")) and the Board of Directors approved the renewal of an insurance policy providing coverage for liability of directors and officers at the Bank Group and monetary indebtedness that may be imposed upon them due to their function as officers, also including coverage for the company in respect of amounts for which it indemnifies officers and in respect of securities claims. The insurance coverage has liability limits of USD 183 million, as well as additional coverage for directors and officers (Side A) with liability limits of USD 72 million (total coverage of USD 255 million), beginning July 1, 2023, for a period of twelve months. The total premium for the aforesaid insurance coverage is approximately USD 6.1 million.

At the annual general meeting convened on November 8, 2023, the following resolutions were discussed and passed: (1) the Financial Statements and the Report of the Board of Directors and Board of Management of the Bank for the year 2022 were discussed; (2) the reappointment of Somekh Chaikin (KPMG), CPA, and Ziv Haft (BDO), CPA, as joint auditors of the Bank, until the end of the next annual general meeting of the Bank, was approved; (3) the appointment of Ms. Ronit Abramson-Rokach as an external director pursuant to the Companies Law, for an additional term of service of three years, was approved; (4) the appointment of Ms. Michal Halperin as an external director pursuant to the Companies Law, for a term of service of three years, was approved; (5) the appointment of Mr. Israel Trau as a director with "other" status, i.e. who is not an external director pursuant to the Companies Law or pursuant to Directive 301, for an additional term of service of three years, was approved; (6) the updated remuneration policy for officers of the Bank was approved; (7) the terms of service and employment of the CEO of the Bank, Mr. Dov Kotler, for 2024-2026 were approved; (8) the proposed amendments to the articles of the Bank were approved; (9) the granting of updated letters of indemnity to officers was approved. The approval of the Bank of Israel for the appointments of all of the directors elected as stated has been received. The term of service of Ms. Michal Halperin is expected to take effect on April 12, 2024.

At the date of approval of the financial statements, the Board of Directors of the Bank also approved the Environment, Social, and Governance (ESG) Report of the Bank for 2023. This was the seventeenth consecutive annual report, and was written in accordance with the GRI standard and the SASB standard. The report also included the TCFD (Task Force on Climate-Related Financial Disclosures) Report for 2023, which describes the Bank's preparations for climate change, in light of the derived risks and opportunities. The Environment, Social, and Governance (ESG) Report for 2022 was approved and published in April 2023; the TCFD Report for 2022 was published in October 2023.

Monetary sanctions and proceedings with government agencies

The Bank's activity is subject to supervision and auditing by the Banking Supervision Department, as well as other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; and the Competition Commissioner. These agencies perform checks and audits at the Bank, from time to time, in relation to the various areas of activity, and demand information and data from the Bank within their authority under the law. The Bank has received two demands for data (most recently in September 2023) from the Competition Authority with regard to a minority investment carried out by the Bank.

In February 2023, the Supervisor of Banks imposed a monetary sanction in the amount of NIS 850,000 on the Bank, under his authority pursuant to Section 14H(a)(1) of the Banking Ordinance, 1941. The sanction is in respect of a breach of Section 25 of Proper Conduct of Banking Business Directive 450, "Debt Collection Procedures," pursuant to which banking corporations are required to report to the Execution Office within seven days on proceeds paid on debts other than through the Execution Office. As the Bank had taken actions to remedy the deficiencies and prevent recurrence, the amount of the sanction was reduced by 15%, to the aforesaid total.

In March 2023, the Supervisor of Banks imposed a civil penalty in the amount of NIS 427,704 on the Bank, under his authority pursuant to Section 50B(a) of the Banking (Licensing) Law, 1981 (the "Banking Licensing Law"). The civil penalty is due to a violation of Section 24A(a) of the Banking Licensing Law, due to an indirect, negligible, historical minority holding (20%) of the Bank in a company that became a significant non-financial corporation due to the addition of its controlling shareholder to the list of significant non-financial corporations. As the Bank had discontinued the violation (within that, the minority holding had been sold) and taken action to remedy the deficiencies and prevent their recurrence, and in light of the minor nature of the facts constituting the violation and other factual circumstances (including the scope of the violation and the profit that could have been derived from it), the amount of the penalty was reduced by 75% to the aforesaid total. In February 2024, the Supervisor of Banks imposed a monetary sanction on the Bank in the amount of NIS 1,000,000, in accordance with his authority under Section 14H(a)(1) of the Banking Ordinance, 1941, due to a breach of Section 9 of Proper Conduct of Banking Business Directive 401, which states that a banking corporation shall not prevent customers from entering a branch and receiving service during business hours, even if they have not scheduled an appointment in advance. Within a review performed by the Banking Supervision Department, it found that in certain cases visitors who had not scheduled appointments in advance were not admitted to the branches of the Bank, in contradiction of the aforesaid directive.

Decentralization of the controlling core of the Bank and transition to a bank without a controlling core

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (the "Holding Permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the Holding Permit, Ms. Arison was required to sell her holdings in the Bank in excess of 5% within several years (according to the original permit, by November 2022; an extension was granted by the Supervisor of Banks until May 2024). On July 19, 2023, Arison Holdings gave notice that following the sale of approximately 0.75% of the shares of the Bank, and a decrease to a holding rate of approximately 4.88% (at that time), it had ceased to be an interested party of the Bank and had fulfilled its obligation to decrease the rate of its holdings in the Bank, as required in the Holding Permit. For additional information regarding the Holding Permit and the change in the structure of control of the Bank in 2018, see Section 6.6 in the Corporate Governance section of the Annual Financial Statements of the Bank for 2018.

6.7. Standards concerning interested party transactions

The following are details of the main points of the various standards established by the Audit Committee, in the past, and recently in February 2024, with regard to the approval and reporting of interested party transactions of the Bank in accordance with the directives of the Companies Law and the Securities Law. At the date of publication of the financial statements, the Bank is a banking corporation without a controlling core, and has no controlling party. Accordingly, the standards are primarily used by the Bank in the classification of transactions with officers, or in which officers have a personal interest, and for reporting on interested party transactions.

Extraordinary/non-extraordinary transactions

Pursuant to the directives of the Companies Law, a transaction shall be considered a non-extraordinary transaction if it fulfills the following cumulative conditions: the transaction is in the ordinary course of business of the company, it is performed at market terms, and it is not material for the company. The standards established by the Audit Committee, as noted, include the following main directives with regard to this matter:

Ordinary course of business of the Bank. A transaction shall be considered one that is performed in the ordinary course of business of the Bank if the contractual engagement is performed within the routine transactions of the Bank in practice, and it is not a nonrecurring transaction or a transaction that is exceptional within the activity of the Bank. Transactions of the following types shall be considered transactions in the ordinary course of business of the Bank, unless special considerations apply: a banking transaction of any type whatsoever, including granting of credit of all kinds, guarantees, and the related contractual engagements, depositing and taking deposits, transactions in securities, participation units in mutual funds or other funds, execution of investments of any kind whatsoever (non-financial, in tradable or nontradable securities), etc., provided that the transaction is of a type of transaction in which the Bank has engaged in the past during the course of its business, and is similar to such transactions in its characteristics (for example, with respect to lending – the credit is in an amount that the Bank customarily grants to borrowers with similar characteristics); a transaction that is part of the core business of the Bank, or that is related to the business activity of the Bank or is in the service thereof, even if it is not in the core of its business (for example, a transaction for rental of a property to be used as a branch of the Bank, an insurance transaction related to the activity of the Bank, a contractual engagement with external service providers to promote business activity, activity to instill the vision of the Bank, etc.), which is of a type of transaction in which the Bank customarily engages or which it has executed in the past in the course of its activity; transactions for the acquisition/sale of an asset (including a yield-generating asset or other fixed assets), product, or service, which is of a type of transaction in which the Bank customarily engages or which it has executed in the past in the course of its activity; and contractual engagements related to the service and/or employment of officers and employees of the company (including insurance, exemption, and indemnification), of a type of contractual engagement customary and practiced at the Bank, or similar in characteristics to past contractual engagements of the Bank.

Market terms. A transaction shall be considered one that is performed at market terms if the price and other principal and material terms of the transaction reflect the price and principal terms of a similar transaction, if it were executed between the company and an unrelated third party, or between other unrelated parties. The existence of market terms in a transaction with an interested party can be determined if a market for transactions of the type of the examined transaction exists, or if external evidence exists for the transaction that can indicate the price and other principal terms prevalent for transactions of this type. Among other matters, the existence of market terms can be determined in one or more of the following ways: the terms of the transaction are similar to the terms of at least two transactions similar in characteristics (such as the type of customer or counterparty to the transaction and characteristics thereof, the volume of the transaction, and other characteristics relative to market terms, such as collateral or the extent of the customer's activity with the Bank), performed by the Bank in the period near the date of the contractual engagement in the transaction under examination (including quotes/binding offers proposed by the Bank to its customers, and binding offers proposed to the Bank), provided that they are prepared (or quoted, as relevant), with a party unrelated to the Bank, and a controlling party/officer of the Bank had no personal interest therein; the terms of the transaction are similar to the terms of at least two transactions in the relevant market, known to the Bank and similar in characteristics (such as the type of customer or counterparty to the transaction and characteristics thereof, the volume of the transaction, and other characteristics relative to market terms, such as collateral), performed in the period near the date of the contractual engagement in the transaction under examination, provided that they are performed between unrelated parties; a price set in an orderly market of buyers and sellers, such as prices of tradable securities or commodity prices, provided that sufficient tradability exists in that market with respect to the relevant asset, product, or service; based on the terms of transactions similar in essence to the transaction under examination in which the other party in the transaction contracted, or received an offer to contract (and was willing to contract, even if it did not actually contract) with unrelated parties, provided that the other party affirms the same to the company in writing; or if the terms of the transaction between the company and the related party were established before it was a related party, and under the circumstances there is no concern over bias in the terms of the transaction, and no significant change in market terms is known, as shall be determined by the Audit Committee.

Materiality of the transaction. The materiality of a transaction with an interested party is examined based on a quantitative and qualitative test. In the absence of special qualitative considerations arising from the overall circumstances of the matter, the following interested party transactions shall be considered immaterial transactions: any transaction involving the granting of credit by the Bank, if the increase in indebtedness ("indebtedness" as defined in Proper Conduct of Banking Business Directive 312 of the Supervisor of Banks) of the borrower after the transaction does not exceed 2% of the supervisory capital ("supervisory capital" – Tier 1 capital after supervisory adjustments and deductions, as defined in Proper Conduct of Banking Business Directive 202) in the most recent financial statements of the Bank, and after the execution thereof the total indebtedness of the borrower does not exceed 5% of the supervisory capital (the Audit Committee shall discuss the classification of each transaction in an amount exceeding 0.5% of supervisory capital). A number of transactions executed consecutively with the same borrower and related to one another shall be considered a single transaction, such that for the purpose of the classification of the aforesaid transactions the cumulative amount of such transactions shall be examined; a transaction of depositing moneys of any kind whatsoever, if following the transaction the total deposits of the depositor do not exceed 2% of total deposits from the public, as reported in the most recent consolidated balance sheet of the Bank published to the public prior to the deposit; a transaction of deposit and/or acquisition and/or sale of securities, participation units in mutual funds and/or other funds, and any other investment held by the Bank as an asset of the customer (not as a balance sheet liability), when the amount of such a transaction does not exceed 0.5% of the total balance of off-balance sheet monetary assets of the customers in the Bank Group, as reported in the most recent consolidated balance sheet of the Bank published to the public at the date of execution of the transaction; and any other transaction of the Bank not mentioned above, if the amount of the transaction does not exceed NIS 300 million. The materiality of transactions executed frequently, regularly, and repeatedly over a period of time shall be examined based on the annual volume of the transactions. In multi-year transactions, the volume of the transaction for the purpose of examining its materiality shall be calculated on an annual basis. The examination of qualitative considerations may affect the classification of a transaction as material/immaterial. Thus, for example, a transaction with quantitative characteristics slightly higher than those noted above may be considered immaterial, if in qualitative terms and under the circumstances it is reasonable to determine that it is not likely to materially affect the Bank.

Negligible transactions

An interested party transaction shall be considered a negligible transaction for the purposes of approval and reporting procedures if the following cumulative conditions apply to it: the transaction is not extraordinary (whether classified as such based on the standards, or by the Audit Committee); the transaction is of a type of transaction in which the Bank engages in the ordinary course of its business, including banking transactions of any kind and transactions in connection with financial products and services, the acquisition of products and services, rental, and renting of property; the transaction is compliant with the limits on indebtedness of related persons based on Directive 312; and one of the following conditions applies to the transaction: (a) it is a banking transaction of the type of transactions that the Bank usually executes with the public in the ordinary course of its business, and its volume does not exceed 0.1% of the supervisory capital in the most recent financial statements of the Bank; or (b) it is another transaction the volume of which does not exceed NIS 10 million, provided that the total transactions of its type in the calendar year with the interested party do not exceed 0.1% of supervisory capital.

7. Additional information regarding the business of the banking corporation and the management thereof

The Bank Group provides banking and financial services in various operating segments, in and outside Israel.

7.1. Control of the Bank

The Bank is a banking corporation without a controlling core, and has no controlling party or shareholder holding a control permit. Until November 22, 2018, Ms. Shari Arison was the holder of the permit for control of the Bank, through her holdings in the Bank via Arison Holdings (1998) Ltd. For additional information regarding the replacement of the control permit by a holding permit and the decentralization of the controlling core of Ms. Arison in the Bank, see Section 6.6 above and Section 6.6 in the Corporate Governance section of the Annual Financial Statements of the Bank for 2018.

7.2. Fixed assets

Table 7-1: Fixed assets

	December 31			
	2023			2022
	Cost	Accrued depreciation	Balance	Balance
	NIS millions			
Buildings and land (including installations and improvements to rented properties)	**4,429**	**2,667**	**1,762**	1,568
Equipment, including computers, furniture, and vehicles	**2,878**	**2,427**	**451**	474
Software	**6,478**	**5,019**	**1,459**	1,480
Total	**13,785**	**10,113**	**3,672**	3,522

The buildings in which the Bank's business is conducted in Israel are under its ownership (directly or under the ownership of wholly-owned property companies), or rented for various rental periods.
Most of the properties in which the Bank Group's business is conducted overseas are rented.
Areas at the disposal of the branches of the Bank (owned and rented) totaled 85,645 square meters as at December 31, 2023, compared with 87,057 square meters on December 31, 2022.

Table 7-2: Distribution of all areas at the disposal of the Bank

	2023	2022
	In thousands of square meters	
Owned	**171**	177
Rented	**85**	84
Total	**256**	261

In June 2021, the Bank entered into an agreement for the acquisition of a headquarters building; for details, see Note 25.B.9 to the Financial Statements.

The headquarters building acquired will be used by the Bank and its employees; the Bank plans to concentrate the head-office units of the Bank in this building.

The Bank sees the centralization of the head-office units in a single headquarters building as conferring value and benefits on several levels. Thus, the relocation will allow more efficient use of space by the units relative to the present situation, and consequently greater efficiency in routine operational and logistical expenses in connection with these spaces.

The centralization of the units in one building will also contribute significantly to enhancing work interfaces and synergies among the units, and to cultural values in this area. The location of the planned headquarters building in Tel Aviv, close to major transportation arteries and to existing and future mass-transit systems in the Tel Aviv metropolitan area, has future advantages in terms of personnel, employee well-being, and transportation efficiency.

The relocation is expected to make it possible to vacate and eventually sell properties currently in use, subject to additional considerations. Accordingly, the Bank is examining alternatives for the betterment of properties currently used by head-office units, which are expected to be vacated, as noted, in the course of the relocation to the headquarters building that has been acquired (with area of more than 50,000 sq.m.).

During the second quarter of 2023, the Local Committee on Planning and Construction of Tel Aviv approved a new Urban Construction Plan for the headquarters compound, primarily on Rothschild Blvd. in Tel Aviv. The total constructed area of the existing properties, according to the current Urban Construction Plan, is approximately 16,000 sq.m., in respect of which construction rights of approximately 47,000 sq.m. were approved in the new Urban Construction Plan.

For further data regarding buildings and equipment, see Note 16 to the Financial Statements.

IT infrastructures

General information

The Bank has two central IT sites, at different geographical locations distant from each other – a primary production site and a secondary site. The Bank's core system is installed on an IBM mainframe computer.

Additional systems operate alongside the core system (Linux, Unix, and Windows-based systems, and private cloud infrastructure – hereinafter: the "Open Systems"), for specific needs, based on a platform that allows dynamic distribution and optimal utilization of resources.

These systems operate in a high-availability configuration between the primary and secondary sites.

The Bank Group's branches, regional administrations, business centers, and Head Office units are computerized and connected online to the computer centers of the Information Technology Division.

The Bank uses advanced methodologies and systems to streamline development and production processes.

The Bank is currently carrying out an extensive project to upgrade its core systems, in order to adapt these systems to coping with the challenges of the future.

Information backup and storage

As noted above, the Bank has two central IT sites (at two geographical locations).

In addition, the Bank has databases that store copies of paper documents, mortgage documents, etc., for everyday use in data retrieval and in order to retain an accessible historical copy of these data.

Every action executed on the Bank's computers is simultaneously updated at the primary site and at the secondary site, so that in case of disaster or physical malfunction, a backup exists for the Bank's critical systems, and damage to the hardware at one of the sites would not cause information loss. Beyond that, the Bank retains a copy of the data at a separate site, in accordance with the policy of the Bank of Israel.

Each of the two active sites of the Bank (primary and secondary) has the required capability to allow full operation of the Bank, without dependence on the other site.

In the event of an emergency switch to the secondary site, the Bank has the ability to immediately increase the power of the backup computer (MF) to the power level of the production computer, by operating dormant engines; in other words, the secondary site has the capacity for the computer power (MF) required for all of the Bank's routine business activity.

Communications

The Bank has an advanced data and voice communications network, with high data transmission speeds. The communications network has high survivability and includes backups that allow work with the Bank's IT centers. The Bank's communications network also connects the Bank's branches and offices worldwide and transmits data services, speech, and video conferences.

Subsidiaries and affiliates overseas

The IT and operational systems of the subsidiaries and affiliates of the Bank in Israel and overseas are based on independent systems, with the exception of subsidiaries in Israel whose systems are on the infrastructure of the Bank and which receive IT services from the Bank. In both cases, managerial responsibility rests with the managements and boards of directors of the subsidiaries and affiliates, or with the member of the Board of Management responsible for the activity, as relevant.

Suppliers

From time to time, the Bank enters into contractual engagements with suppliers from Israel and elsewhere to receive the various services it requires in the area of information systems, including agreements for the purchase and maintenance of equipment, implementation of information systems, and purchase of software. Among other matters, the Bank acquires IT infrastructure components for the mainframe from IBM (through its representative in Israel, IBM Israel) and receives maintenance services from it for these components, on which the core systems of the Bank are operated. The Bank has dependence with respect thereto.

The Bank has contracted with suppliers for the provision of outsourcing services, at this stage mainly in the areas of development, testing, and support services.

Information security

The Bank views information security and cyber defense as matters of key importance and invests extensive technological and human resources in the protection of customer privacy, secrecy of banking information, and the assets of customers and of the Bank, using some of the most advanced cyber defense methods and information security products in the world.

Information security for the systems of the Bank is operated by embedding defense technologies and cyber controls in multiple layers. Controls are applied on the levels of human resources, organizational infrastructures, policies, procedures, business aspects, technologies, and more.

The Bank has a dedicated information security operations center (SOC) to manage all cyber events and fraud attempts in real time. The SOC, which is staffed by analysts and researchers at all times (24/7), uses automated tools and work processes to identify and address cyber events and fraud.

Projects in the area of information systems at the Bank are accompanied from their inception and throughout the development and maintenance stages by an information-security team that ensures secure development processes and strict compliance with rules, including protection of the privacy of information and restriction of access to information.

The Bank routinely tests the information security of its systems, including through external parties, as required by regulation. In addition, periodic evaluations are performed of the Bank's compliance with its cyber defense policy.

Cyber defense at the Bank is managed in accordance with the requirements of the relevant regulatory directives. The Bank is also certified under the information security standards ISO27001 and ISO27032.

Main projects

Core systems modernization plan – The Bank is performing significant investments in technological transformation to cope with the challenges of the future, taking into consideration regulatory, technological, and consumer trends. In this context, the Bank is implementing a large-scale plan to upgrade its central core banking systems. This project is characterized by massive short-term investment in infrastructure systems that will serve the Bank in the long term, the benefit of which will be derived gradually, over long periods.

Transition to a public cloud – As part of the process conducted by the Bank to improve the pace of implementation of the development of new products and system modifications (time to market), the Bank is working to develop advanced infrastructures to allow it to work more effectively in a public cloud environment, simplifying many processes, such as the integration of external components and services at the Bank.

Open banking – Completion of the building of infrastructure to comply with regulatory requirements and for business purposes.

CRM system in the Retail Banking Division – Implementation of a SalesForce platform to improve service and the customer experience.

The Bank has decided to upgrade its CRM system, taking a leap forward in its ability to manage cross-channel processes in the areas of service and sales and improving its digital capabilities, including reflection and participation of customers in the process, realization of optimization processes in handling customer requests, and improvement of management and monitoring capabilities of all functions involved in the process.

Data infrastructures – Construction of infrastructures to provide solutions for projects based on customer data and value offers, including methodologies for information management and analysis and creation of innovative models.

Mortgages – The Bank is gradually updating its mortgage systems, to allow support for the accelerated growth of this activity, increased efficiency, and optimal response to the customers of the Bank.

Capital market core – Upgrade of securities operations systems, to support the growth of customers' activity and create a rapid response to business initiatives and growth in custody.

Banking via mobile devices – Continued development and expansion of applications designed for use on mobile devices of customers of the Bank and of all customers. The applications offer business capabilities in a wide range of areas and customer segments, through an innovative and unique interface and user experience, with an emphasis on business and technological leadership and adaptation to the customer.

Websites and mobile sites – Development of websites and mobile sites aimed at maintaining and solidifying the technological business leadership of the Bank, while realizing advanced concepts in visibility and customer service, multi-channel integration, and architectural aspects.

Scope of investment

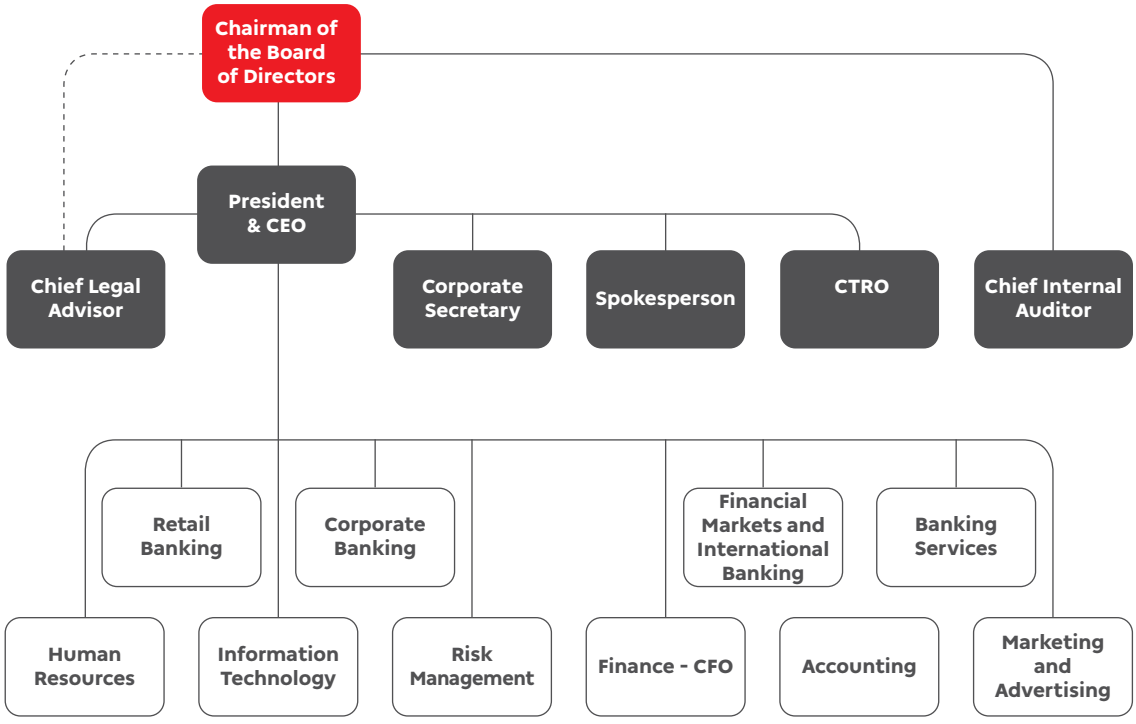
Costs of the information-technology system are recorded as assets in the financial statements only during the development stage of the IT system. Costs that can be capitalized as assets include direct costs of hardware, services, and labor.

Other costs, such as pre-project costs, software development costs that do not exceed the materiality threshold, absorption and training costs, routine maintenance costs, administrative costs, and other costs that cannot be attributed directly to software development, are recognized as an expense in the statement of profit and loss as incurred.

For details regarding costs of the information-security system, see Section 2.2.3 of the Report of the Board of Directors and Board of Management, above.

7.3. Human capital

Diagram 7-1: Organizational structure chart of the Bank



Human-resources strategy

Human-resource strategy is multi-annual and is derived from the strategy of the Bank, its business needs, and trends in the banking industry and in the labor market. The essential purpose of this strategy is to regularly increase return on human capital, such that the ratio of the total expenditure on human capital to its direct and indirect contribution to the growth of the Bank progressively rises. Increasing the return on human capital is based on methodical, ongoing processes to focus and reduce expenses, alongside systemic processes at the level of the organization and of the individual to raise productivity. These efforts are aimed at adapting the Bank to coping with the challenges of competition in the financial industry, the business growth objectives derived from the Poalim 2026 strategic plan of the Bank, and the future world of work. The Human Resources Division has formulated an approach of business partnership, linking employee connectedness, organizational culture, and the business results of the Bank.

Over the last year, in line with this approach, the Bank significantly expanded its application of the Agile perspective; implemented a new technological system for remote learning, supporting development of the capabilities and skills of the Bank's employees; continued to develop innovative hiring and screening processes; provided access for Bank employees to a holistic approach to career development and growth; devoted greater depth to the employee experience; continued to support and develop capabilities for remote work, which also serve to prepare for emergencies; and promoted structured processes strengthening inter-division cooperation, all while developing and empowering leadership in middle and senior ranks, including management.

This multi-year program of organizational cultural change, under the heading "Change The Bank," encompasses systemic enterprise-wide processes focused on improving competitive capabilities and connectedness, empowerment, and building a concept of one unified bank. A wage agreement for the coming years was signed in 2023, supporting the continued development and empowerment of employees and helping to realize human-resource policy.

Human resources activity at the Bank currently operates through a structure of expert centers and human-resource administrations for each division. This structure allows integrative management of broad systemic processes as well as in-depth initiatives supporting the divisions' strategic objectives, as part of an integrative business plan backed by clear targets and success indicators.

Following the events of October 7th, the activity of the division was adapted to the situation, to provide warm, compassionate, engaging, systematic support to the employees of the Bank, with heightened sensitivity to Bank customers' needs and general mobilization to support the community.

Principal changes in the headcount of the Bank Group at the end of 2023, in comparison to the end of 2022, are set out below.

Table 7-3: Data regarding the headcount of the Bank Group, in terms of positions[1]

	2023		2022	
	Annual average	Year-end balance	Annual average	Year-end balance
Bank				
In Israel[2]	**8,176**	**7,850**	8,119	7,938
Outside Israel	**253**	**254**	230	232
Bank total	**8,429**	**8,104**	8,349	8,170
Subsidiaries				
In Israel	**131**	**127**	140	141
Outside Israel	**42**	**12**	73	72
Subsidiaries total	**173**	**139**	213	213
Bank Group total	**8,602**	**8,243**	8,562	8,383

(1) The number of positions also includes translation of overtime costs into employee positions, plus the positions of external personnel who are not employees of the Bank but who provide labor services as required for the adjustment of manpower needs in the course of routine operations and for the introduction of projects, less 703 positions of employees whose wages were capitalized to fixed assets in 2023 (2022: 777 positions).
(2) Positions at the end of 2023 and average positions in that year were influenced by absences due to days of reserve military service in the Swords of Iron War of employees of the Bank and of external staff who are not employees of the Bank.

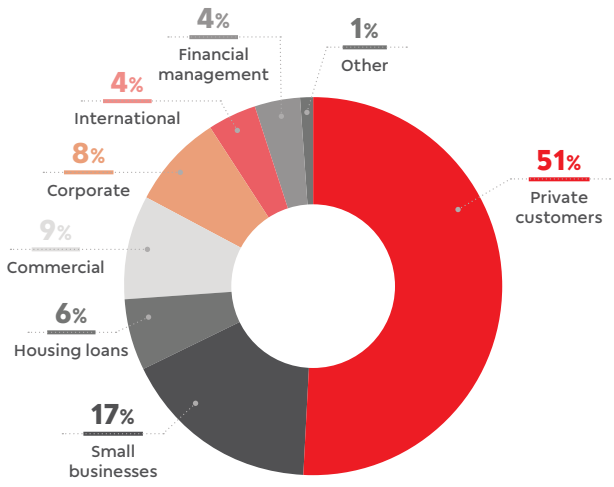
The number of positions at the Bank Group as at December 31, 2023, decreased by 140 compared with the number of positions at the end of 2022. The decrease resulted both from a decrease in manpower at subsidiaries, mainly due to the sale of the holdings of the Bank in Bank Pozitif, and from a decrease in manpower at the Bank, influenced by absences of internal and external personnel at the Bank due to the war.

Table 7-4: Distribution of the average number of employee positions in the Bank Group by management approach operating segment[1]

	For the year ended December 31		Change
	2023	2022	
Private customers	**4,388**	*4,274	2.7%
Small businesses	**1,451**	*1,445	0.4%
Housing loans	**549**	572	(4.0%)
Commercial	**746**	757	(1.5%)
Corporate	**728**	746	(2.4%)
International activity	**349**	366	(4.6%)
Financial management	**305**	308	(1.0%)
Adjustments	**86**	94	(8.5%)
Total	**8,602**	8,562	0.5%

* Reclassified.
(1) Includes positions of Head Office employees whose cost of employment was charged to the segments.

Diagram 7-2: Average employee positions by operating segment in the year ended December 31, 2023



Human resource characteristics

The policy of the Bank is to employ, promote, and make decisions concerning employees based on pertinent considerations such as skills and the evaluation of performance, without discrimination on the basis of religion, race, sex, age, views, sexual orientation, disability, place of residence, etc. The Bank encourages the hiring of employees belonging to population segments underrepresented in the labor market, as part of its hiring policy, in recognition of the advantages inherent in a diverse workforce in terms of a better understanding of various customer segments, and the encouragement of innovation and creativity in an open and diverse work environment.

The average seniority of the Bank's employees was 17.1 years in 2023, compared with 17.2 years in 2022. The average age of employees of the Bank decreased to 45 years, compared with 45.2 years in 2022. In 2023, approximately 65.2% of all employees of the Bank were women, versus 64.7% in 2022. In the Bank's management personnel (at or above the rank of section managers at the Head Office and department managers at branches), the percentage of women in 2023 was 56.8%, compared with 56.0% in 2022.

A majority of the employees of the Bank (70.4% in 2023) hold academic degrees, and the percentage of these employees is rising steadily.

Efficiency at the Bank

From time to time, the Bank carries out efficiency plans within which, when the desires of both parties align, employees take early retirement with preferred terms; this refers to employees who meet the conditions established in the plan. The Bank reflects employee retirement costs, according to management expectations, in its actuarial assumptions in connection with early retirement.

Remuneration policy and remuneration plan

The Bank aspires to motivate its employees to act to create long-term economic value for the Bank and its stakeholders, strengthening the connection between remuneration and the creation of value for the stakeholders of the Bank while maintaining fair employment, encouraging excellence, and promoting a culture of performance.

The salaries paid to the managers and employees of the Bank are derived from a scale of ranks, which allows promotion and reflects the authority and responsibility of the various levels of the organizational hierarchy. Annual bonuses (if granted) are based, among other matters, on the return on equity of the Bank, and may also be determined by the achievement of quantitative and qualitative individual performance objectives, as well as long-term plans and objectives adapted to the overall strategic plan of the Bank and of its sub-units and to the derived work plans.

For further details, see Notes 22 and 23 to the Financial Statements.

Cost and wages per employee position

Table 7-5: Details of cost per employee position and salary* per employee position at the Bank (in NIS thousands)

	2023	2022
Cost per employee position, excluding bonuses	**453**	447
Cost per employee position, including bonuses	**(1)523**	515
Salary* per employee position, excluding bonuses	**283**	277
Salary* per employee position, including bonuses	**(1)340**	332

* Salary – calculated according to gross salary as paid to the employee.
(1) Including a bonus for the signing of a wage agreement.

Vision, values, and ethics

In late 2021, the vision of the Bank and the accompanying five values were introduced.

The vision of the Bank – "Committed to growth through impactful, innovative, fair banking for our customers" – is the organizational compass, representing the ambitions and commitment of the Bank. To ensure our ability to realize the vision of the Bank and integrate its organizational, business, and cultural components, five core values were redefined that guide the way we operate, do business, and benefit the economy, society, and the environment. Each of the core values is relayed into key behaviors for application of the values in practice. Taken together, they form a comprehensive organizational approach integrating a customer-centric worldview with quick, flexible deployment to deliver optimal responsiveness grounded in partnership, boldness, and aspiration to continual improvement.

The Bank's code of ethics and conduct reflects the values underlying the Bank and delineates the expectations and behaviors we are all adopting and striving to uphold, among ourselves and towards our customers and other stakeholders. The code is designed to be used by employees and managers, in all units and at all ranks, as a compass for appropriate conduct in coping with ethical dilemmas during their routine work.

Formulating the leadership model – In the awareness that the organizational culture of the Bank is primarily created and influenced by its management culture, the leadership model was designed through a shared process by employees and managers, with the aim of defining "the leadership we need today." The five components of the model are:

1. Leadership that is authentic and brave.
2. Leadership that is performance-oriented and creates value.
3. Leadership that is proactive and steers change.
4. Leadership that realizes potential.
5. Leadership that promotes partnership.

Each component of the model is accompanied by a set of behaviors expected of leaders. In 2022, the model was instilled in various ways, including through manager training processes, manager recruitment and promotion processes, performance evaluation and feedback processes, and lectures and workshops dedicated to this subject.

Manager training and development – The Leadership and Organizational Development Center assists managers and units in the entry of managers into new positions, in the management of change processes, and in implementing organizational culture and values, according to the vision and strategy of the Bank. The center works on developing management and leadership capabilities, resilience, the ability to cope with change, and individual empowerment and development for employees and managers. 245 managers at all ranks participated in management role training programs in 2023. 34 managers received guidance from coaches at the Bank; 78 managers ran development activities for 850 employees; 900 managers participated in leadership conferences; 1,400 managers participated in 45 workshops aimed at strengthening leadership and providing managerial tools for use during the war.

Cultivation, development, and management of human capital

Employees' success is the success of the Bank and its customers. The employees of the Bank guide customers and businesses and help them achieve astute conduct, make better financial decisions, move forward, and evolve. Accordingly, the Bank is committed to cultivating and nurturing its human capital through continual dialogue, creation of a range of opportunities for development, and the provision of tools to enable employees to grow and develop, while also caring for their health and well-being.

The Bank aspires to be a preferred employer and offer its employees meaningful, influential work. As part of instilling an organizational culture that encourages personal, professional, and business growth, the Bank implements processes for employee and manager participation and influence in future changes and enterprise-wide issues, based on deep awareness that the more the employees are influential and meaningful partners in a process, the better and more right the process is for the Bank.

The Hiring and Career Guidance Center at the Bank operates based on a perspective centered on customers and employees.

Recognition of the importance of the employee experience as a leading value, as early as the hiring and screening stages, drives the Bank to work continually to improve and adapt processes and tools to align with the changes in the labor market. Employee hiring and screening processes have been adapted for this period and conducted remotely using digital platforms and advanced diagnostic tools, to shorten the process and create a professional, innovative, optimal experience.

Along with extensive efforts in recruitment processes, the Bank understands the importance of guiding employees as they enter a new role, where they face professional, social, and personal challenges. To help employees settle in quickly, provide professional development, create a positive orientation experience, and strengthen their sense of connectedness to the Bank, the Bank formulated an onboarding journey, to guide employees and managers through the processes of onboarding, movement, and development at the Bank using advanced tools and digital platforms. Along with this innovation and automation, the Bank designed a process in which new employees are assigned a colleague to accompany them through socialization processes, personally and continuously. The Bank's onboarding model won first place in the Excellence in HR Competition in Israel.

The Bank is steering an organizational policy encouraging personal growth and development as an impetus for business growth. The Bank believes that a culture supportive of employee mobility among roles at the Bank creates opportunities for professional and personal development for employees and managers, and creates a stronger sense of meaning, connectedness, and achievement over time. At the same time, the Bank's approach is that employees should take responsibility for their personal development; senior management is therefore engaged in employee guidance and support processes, to build an expanse of opportunities and possibilities. In view of the ambition to provide employees with occupational and development opportunities, while strictly adhering to transparency and equal opportunities, employees and managers of the Bank are invited to use the Maavarim ("Transitions") system to view and apply for available positions at the Bank.

Technological developments and automation processes are accelerating changes that also require the Bank to prepare for the challenges of the future, as part of the vision of innovative banking. Within the organizational culture promoting development and growth of human capital, the Bank continued to formulate a skills-driven strategic plan, based on the approach that the model would serve as infrastructure for HR initiatives and for human-capital development and growth processes. The Bank also introduced Speed Date, a development initiative offering Bank employees the opportunity for exposure to a wide range of development and growth paths at the Bank, including options for learning, potential positions, volunteering, networking, and more. Participating Bank employees received personal guidance from a management team mentor. In addition, the Bank launched the Our Home project, in which Bank employees become acquainted with the work of various units and professions through guided tours and lectures at units of the Bank. Along with strengthening of routine interfaces between the different units, the project enables employees to gain familiarity with the variety of opportunities for development, growth, and career exploration at the Bank.

Performance evaluation process

The key element of the annual performance evaluation and feedback process is dialogue shared by managers and employees to review the achievements of the last year and plan future objectives and development, as derived from work plans. The process is based on open discussion and transparency, and supports employee empowerment and professional and personal development. The process is part of an annual sequence of managerial actions to encourage excellence and provide evaluation, appreciation, and compensation.

In advance of the process to conclude 2023, adjustments were made to the evaluation process to adapt it to the Agile operating model and work in "tribes." In addition, preparations began for 360 Evaluation – a process of evaluation by peers and evaluation of managers by employees.

In 2023, the Bank also conducted a separate talent review process, aimed at identifying and flagging notable talented individuals within the organization at the division level. The mapping will be reflected in the performance evaluation and feedback process of the identified talented individuals, and will serve as the basis for development, cultivation, retention, and promotion processes.

Intra-organizational communication

As a prominent characteristic of the organizational culture and as part of an ongoing drive to boost employee connectedness, intra-organizational communication is marked by transparency and ongoing, rapid dialogue on equal terms with the employees of the organization. The emphasis on availability and continuity of communications, as an essential element of the employee experience, gained greater importance after the events of October 7th. The Bank is a microcosm of Israeli society; as such, the Bank was called upon to respond to its employees in a national, organizational, and personal moment of truth. Beyond regular communication, which increases feelings of confidence, resilience, and organizational pride, a broad network of support was given to employees who were evacuated from their homes, called up for reserve military service (or had members of their families called up), or had relatives killed, murdered, abducted, or injured in battle.

The various channels for internal communications in use at the Bank were active during the year, and in particular since the events of October 7th:

- The organizational portal, which serves as a central, advanced communications channel supporting the sharing of information with employees and the absorption of intra-organizational change processes.
- Portal Laderech ("Portal To Go") – A mobile application designed for employees of the Bank, which allows them to continue to obtain updates and information on various organizational subjects off the premises of the Bank and beyond work hours.
- A mechanism for immediate text messages sent to employees to provide real-time updates from the Business Continuity Committee.
- Several round-table events were held during the year to encourage processes of listening to employees, with the participation of the CEO of the Bank; the emphasis was on improvement of business processes.
- After the outbreak of the war, an organization-wide live broadcast was held to increase feelings of resilience and connectedness, and email communications were used throughout the organization to send messages from the CEO and from human resources.

- In the area of the employee experience, dozens of round-table meetings were held to fine-tune the employee experience at the Bank; the employee experience incubator project was aimed at encouraging partnership and creativity, for the improvement of internal processes; and a campaign was held to instill an organizational culture of appreciation.
- In the area of organizational knowledge management, a significant step forward was taken through the introduction of an advanced knowledge-management system, which will improve the user experience and customer service. The system is planned to be rolled out to bankers over the course of 2024.

A culture of continual learning

The bank fosters a culture of organization-wide life-long learning (LLL), and works to maintain and strengthen employees' professional competencies and nurture their ability to cope with present and future challenges. This effort forms the foundation for creating business value, reinforcing a sense of pride and connectedness to the Bank, and ensuring its competitive advantage in the digital age and in an evolving world.

In 2023, the Bank continued to deepen processes to instill a culture of learning, in line with the changes and developments in the world of work in the digital age. The focus was on expanding technological infrastructures that support learning, enriching study programs on professional and banking topics, and continuing to instill a digital and hybrid approach to learning, which promotes business needs and prepares for the challenges of the future. The digital learning platforms and the infrastructures developed provide new learning opportunities to all employees, and are available to them at the office, via mobile, or during remote work, enabling them to develop the skills required in various fields of knowledge and the competencies that support their personal development and self-actualization.

Poalim Learning Hub Campus – from a teaching campus to a learning and teaching organization

The training programs and content development support the achievement of business goals, and are based on learning needs required to respond to challenges, including mapping of the skills required in various positions and identifying knowledge gaps among employees and managers in all units.

The Bank promotes a culture of "learning anywhere, anytime" on professional and personal topics, at the initiative of the organization and the employee, in a variety of ways: hybrid learning, combining in-person instruction with independent study; learning sessions in the field; remote learning sessions; online courses; and more. The flexible operational model of the Campus and its connection to the divisions and to the field make it possible to design and update the work plan on a monthly or quarterly basis, according to changes in the economy, business goals, and customers' needs.

Training focuses on the effectiveness of learning, imparting maximum business value to the employee, and maximizing professional value for customers. Learning hours decreased in 2023 compared with 2022, as a result of more efficient learning methodologies – more learning in less time. Course content was more focused, materials and the pace of progress were adapted to participants, and in combination with the transition to hybrid and digital learning, the time required for study was shortened. The use of data measurement and analysis as tools for developing and promoting learning deepened in 2023.

Platforms promoting learning and professional expertise

New relevant knowledge, competencies, and skills must be acquired to make progress in the dynamic and evolving world of work. The Bank has therefore developed tools, content, and professional forums to help employees develop professionally and take charge of the promotion of their careers and their personal and professional development:

- **The new learning system, Boost –** To implement an approach to learning that enables all employees to develop professionally and personally, learn on the job, and maintain professional competence, in 2022 the Bank introduced a learning system available from anywhere and at any time. The system contains a rich catalogue of more than 24,000 learning items on professional and managerial topics. The system manages all training processes, for onboarding and during work, and allows employees to develop in areas of knowledge that contribute to their career path within their work at the Bank. Employees can view content relevant to their role and monitor their progress. This infrastructure makes learning flexible and accessible, and enhances the responsibility of both managers and employees for personal and professional growth and development. The system also serves as a management tool, in that managers can track their employees' learning, using a dedicated zone and management reports, and assign learning programs according to needs and knowledge gaps identified.

  In 2023, the Bank continued the implementation of the system and the expansion of the content offered, and, for the first time, integrated it with the global system LinkedIn Learning. The integration expands the opportunities offered to our employees for learning and development, and enhances the learning experience and the scope of learning.
- **Knowledge sharing and dissemination through expert communities and professional forums –** For the third year, the Campus led the Learning Leaders Team forum, to promote a culture of continual learning at the organization. The forum consists of representatives of the divisions of the Bank, and serves to provide practical tools for effective learning management, conduct peer learning, and gain exposure for participants to the successes and challenges of selected units at the Bank and leading learning institutions in Israel.
- **Sessions dedicated to the development of personal capabilities –** Based on mapping of needs among employees of the Bank, in 2022 the Bank launched the lecture series "Enriched," which was initially targeted to managers and was expanded to all employees in 2023. Lectures are held via Zoom, focusing on topics that support skills needed in the evolving world of work and adapted to the new leadership concept and the organizational culture of the Bank.

7.4. Material agreements

The following is a summary of the main points of the agreements to which the Bank is a party which may be considered material:

- Collective wage agreement for 2023-2027 – the Bank, the Histadrut General Federation of Labor in Israel, and the Employee Union signed a wage agreement for 2023-2027 in August 2023. For further details, see Note 22.A.4 to the Financial Statements.
- For details regarding letters of indemnity received by the officers serving at the Bank, officers who served in the past, and certain employees who are not officers under special circumstances, see Note 25.B.4 to the Financial Statements.
- For details regarding letters of indemnity granted in connection with prospectuses and issuances of the Bank Group, see Note 25.B.6 to the Financial Statements.
- For details regarding contractual engagements of the Bank in issuance and operation agreements with credit-card companies, see Note 25.C to the Financial Statements.
- For details regarding IT infrastructures of the Bank and contractual engagements with IBM, see Section 7.2 above.
- For details regarding letters of immunity and indemnity received by the Bank from the Attorney General and the Ministry of Finance in connection with the provision of correspondent services to Palestinian banks, see Section 3.6, "Compliance risk," in the Report of the Board of Directors and Board of Management.
- For details regarding resolutions with the United States authorities in connection with the tax investigation and FIFA, see Note 25.E to the Financial Statements.
- For details regarding the acquisition and use of land insurance policies that protect the Bank against credit losses in respect of the portfolio of loans secured by a lien on land, insurance policies for Sale Law guarantees, and insurance policies for housing loans (secured by mortgages), see Note 25.B.10 to the Financial Statements and the section "Credit risk – construction and real estate" in the Report of the Board of Directors and Board of Management.
- For details regarding agreements with the tax authorities, see Note 8 to the Financial Statements.
- For details regarding the contractual engagement of the Bank for the acquisition of a building for use as headquarters, see Note 25.B.9 to the Financial Statements.

7.5. Operating segments based on the management approach

7.5.1. Private Customer Segment

General information and segment structure

The Bank provides a wide range of services to private customers, including routine account-management services, lending for various purposes, deposits, savings plans, and capital-market activity. In addition, the Bank offers services and solutions to customers with complex financial needs, through advanced products, global asset management, and a professional service package, which includes meetings, proactively initiated telephone calls, and an advanced advisory system aided by decision support tools.

As at the date of the report, services are provided to customers through a network of 160 branches, in addition to Poalim Close to You service points, advising centers, Platinum Centers for selected customers, and two mobile branches serving customers at locations nationwide.

In addition to the extensive branch network, the Bank offers its customers a wide range of self-service and digital service options, allowing customers to conduct banking activities independently and efficiently, with high availability. These include self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, the Pro contact center for digitally oriented customers, the interactive voice response (IVR) system for information and transactions, written messages on the website and mobile application, and social media.

As part of the Bank's approach to service and social responsibility, the Bank considers accessibility to people with disabilities an essential issue and its duty as a business; accordingly, all of the Bank's services have been made accessible to people with disabilities.

There has been an ongoing trend over the last few years of growth in banking activity through unstaffed channels (self-service automated teller machines, the website, applications, the mobile site, and the automated voice response at the Poalim by Telephone call center). Note that more than 85% of common banking transactions of customers of the Bank are performed through digital services and self-service.

In addition to this trend, the Bank has increased the use of the service for scheduling appointments with bankers in advance, and added channels for scheduling appointments, to allow customers a high-quality, professional, individual encounter.

Collection

Dedicated activity during the Swords of Iron War

In view of the war, due to the Bank's wish to assist its customers, at the outbreak of the Swords of Iron War the Bank immediately instructed its collection units (including Poalim Financial Health) to refrain from taking proactive measures against customers with debts. Concurrently, the Bank acted with sensitivity towards customers who contacted it or endeavored to settle their debts, including by deferring payments and providing individual solutions and reliefs. The collection procedures were adapted to the emergency routines, in every stage, according to the circumstances of the case, with exceptions for the population of customers who were directly or indirectly harmed during the period of the war.

Products and services

As part of the Bank's strategy of enhancing value for customers and guiding customers at important decision points in their lives, the Bank offers a range of products and services to its customers, including services for groups of customers with common characteristics (the High Tech Zone Club, Poalim Young and the Student Club, and Poalim Wonder), services through the direct channels, and the development of dedicated mobile apps (the Open app for opening accounts, the Bit app, a capital-market trading app, and Poalim Plus benefits).

The Bank has a loyalty (reward) program designated for its customers who hold a bank credit card (Poalim Wonder), regardless of which credit-card company operates the card. The program replaced some of the plans administered by the credit-card companies that operate the bank cards.

With regard to the agreement signed with Electra Consumer Products (1970) Ltd. (ECP) and Israel Credit Cards Ltd. (CAL), see Note 25.B.11 to the Financial Statements.

Targeted benefits for private customers

When the Swords of Iron War broke out in October 2023, to help customers during this challenging time, the Bank announced a series of significant benefits for its customers who are residents of southern Israel, residents of northern Israel displaced from their homes, soldiers called up for reserve military service, and first-degree relatives of abducted or missing people:

- The Bank created a fund in the amount of NIS 750 million to grant interest-free bridge loans and reduced-interest loans to customers.
- The Bank allows deferral of loan payments by up to three months at no added cost.
- The Bank is granting an exemption from various fees through the end of 2023.
- The Bank is allowing suspension of three mortgage payments, and has also granted exemption from mortgage payments for three months to customers with properties in the Otef Aza (Gaza Envelope) region (residing in the area up to 8 km from the border).
- The Bank will not charge interest on negative balances in current accounts of households in amounts of up to NIS 10 thousand (for customers with credit facilities; excluding customers called up for reserve military duty).

The Bank is also offering benefits and reliefs to all of its customers (who have active current accounts at the Bank):

- Loans at the Prime interest rate only.
- Rescheduling or deferral of payments on existing loans.
- A relief allowing existing deposits to be broken.
- Deferral or rescheduling of charges for the month of November in bank credit cards, at no cost.

The Bank has also set up a hotline for Otef Aza customers and for any customer in need of immediate assistance due to the current situation.

For details regarding the benefits granted by the Bank in the area of mortgages, see the section "Housing loans," below.

In addition, in December 2023, the Bank introduced significant benefits for reserve military personnel, beyond the benefits noted above, to help this population group cope with the decrease in their monthly income. The Bank is refunding interest payments on existing loans (other than housing loans) for three months (January-March 2024) for self-employed licensed dealer customers who were called up for reserve military service during the war and received a reserve duty grant or compensation in their account at the Bank.

In January 2024, the Bank extended the benefits granted during the war, according to the continuing outline of the Bank of Israel, for eligible customers.

The foregoing follows a series of significant benefits granted by the Bank to its customers in July 2023 to help cope with the interest-rate environment:

- Substantial enhancement of the mechanism for offsetting positive balances against negative balances in current accounts – the monthly ceiling for offsets has been raised such that the total daily negative balances in the course of a month that can be offset against a positive balance stand at NIS 300,000, cumulatively, per month.

- Reduction of interest rates on negative balances – the Bank is lowering interest rates on negative balances in the second and third brackets, in NIS current accounts and private current drawing accounts, and will equalize the interest rates in these brackets with the interest rate charged in the first bracket. This involves an interest-rate reduction of 2.7%-2.9% for salary-based current accounts and of 0.5% for private current drawing accounts (relative to the interest rate in the chart, without double benefits). The benefit will be in effect for one year.
- Proactive encouragement for households to redirect significant amounts from positive balances in current accounts to more profitable channels for them, focusing on customers with positive current-account balances of up to NIS 50,000.
- Improvement of interest rates on deposits for retail customers – the Bank provides retail-banking customers who have "small" deposits interest rates identical to those of "large" deposits (over NIS 500,000), thereby effectively improving on the interest rate in the chart for most NIS deposits. This measure will apply to deposits made or renewed as of July 10, 2023.
- Absorption of further increases in interest rates on mortgage payments and extension of the existing absorption by six months – for details, see the Housing Loan Segment below.
- A new service was launched on the website for private customers in July 2023, allowing an existing loan to be spread over a longer period (up to 96 months), while reducing monthly payments and/or deferring monthly payments by up to two months. The service offers relief in current cash flows while maintaining the terms of the original loan. The service is available only to private customers with sound account management and regularly paid loans, with a balance of up to NIS 250 thousand.

Capital market activity

Services for customers of the segment in the capital market include a range of activities and financial services in various fields: trading, operations, and custody in Israeli securities (including Maof); trading in foreign securities; and research and advisory services for customers in the area of the capital market. Some of these activities are performed directly by the Bank, while others are performed by subsidiaries, each of which specializes and engages in a specified field.

The Bank provides financial advising services at fourteen Poalim Invest advising centers, as well as through the Platinum Centers and Poalim Pro.

The investment advisors at the Bank provide their customers with professional, innovative advisory services using advanced tools and systems, through understanding their needs, maximizing value, and strengthening relationships, in a personal service package tailored to each customer.

Pension advising

The Bank offers pension advising and retirement planning services through a network of advisors located throughout Israel. The Bank is connected to the pension clearing house, and receives information through the clearing house for the purpose of providing advisory services. The Bank holds a pension advisor's license and employs licensed advisors at fourteen Poalim Invest pension advising centers and a national retirement planning center. The Bank has signed distribution agreements with most of the management companies of provident funds, study funds, and pension funds. The Bank, as an objective advisor, is entitled to a uniform distribution fee for the distribution of the funds, in accordance with the regulations.

The Capital Market, Insurance, and Savings Authority is acting to promote a legislative amendment aimed at permitting banking corporations to provide advisory services by telephone and through digital means.

On February 5, 2023, the Capital Market, Insurance, and Savings Authority issued an update of the circular concerning a uniform structure for the transmission of information in the pension savings market. The circular establishes the structure of uniform interfaces used by institutional entities, license holders, employers, and other consumers of information in the area of pension savings within the transmission of information and execution of various business transactions conducted among them. The transmission of information in a uniform structure allows more sophisticated processes of information flow in the market, and forms the foundation for the operation of a central pension clearing system.

Marketing and distribution

Marketing and distribution in Israel are conducted through the branches of the Bank, at Poalim by Telephone, and through the digital and direct channels (self-service devices, the website, and the application). The Bank is also active on social media: Facebook, Twitter, Instagram, and LinkedIn. Customer messages on the Facebook page are answered by representatives. Marketing initiatives of the Bank are also reflected in advertising in newspapers, on television, on the internet, on the radio, on billboards, and at branches. In recent years, the Bank has expanded its use of digital channels via internet and mobile applications, allowing customers to receive service without visiting a brick-and-mortar branch. Marketing through digital media has also expanded, on the internet and on mobile applications, which allow a targeted approach to customers according to their interests and the characteristics of their online activity. As part of the measures applied by the Bank aimed at providing relief to its customers at the outbreak of the war, the media noted above were used in addition to internal media of the Bank (such as the website, app, emails, text messages, push notifications, etc.) as a tool for communicating the reliefs and benefits offered to customers.

Customers

The segment consists of private customers who receive services through the branches, Poalim by Telephone, and the digital channels. Services provided are adapted to the characteristics of the various customers.

Competition

The level of competition has continued to rise in recent years. Causes include technological developments and customers' growing willingness to receive services remotely, concurrently with the removal of barriers to the entry of new competitors and strengthening of small and medium-sized competitors. Competition continues to expand to encompass financial and non-bank players such as credit-card companies, insurance companies, fintech companies, and other retail organizations. The open banking reform, the implementation of the Law for Increasing Competition in the Banking System (the "Strum Law"), and the Credit Data Law have also contributed to increased intensity of competition in this sector. The Bank continues to adapt its operating model to provide full responsiveness to its customers, according to the changes in their needs and characteristics, while providing full services in a wide range of areas and products, made accessible through a range of service channels.

Technological changes that may have a material impact on the segment

The trend towards heightened preference for digital services among customers continued this quarter, along with the expansion of digital value propositions and access to products and capabilities through the website and application.

Deposits into savings plans via app

In the second quarter of 2023, savings plans were made accessible with the first-time introduction of an option to make deposits into savings plans using the Bank's app. This is the first significant milestone in the ability to perform actions involving savings plans through the app, an important measure in the current interest-rate environment.

Bit application

Bit is a leading payment app that currently has approximately 3 million active users (of which approximately two-thirds generally conduct their main activities at other banks), which allows users to perform payments based on charge cards, including, among other things, services for money transfers between users (P2P), the most popular service among Bit users; services for transferring users' charge-card information through the app to purchase products and/or services from businesses; a service allowing municipal tax and water bills to be paid directly through the app; and services for receiving credits from various entities (such as insurance companies). The Bank is working to develop Bit in order to create new banking products.

At the same time, in October 2023 the Bank discontinued its digital wallet service for smartphones based on Android operating systems, which had been administered within the Bit app as an additional service (Bit Wallet), and allowed users to execute transactions via charge cards at businesses by tapping their smartphone to a point of sale.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Heightened regulation has been evident in recent years, as part of the plan to increase competition in the banking market, which affects this segment. For further details, see the section "Regulatory initiatives," below.

Table 7-6: Results of operations and principal data of the Private Customer Segment

	For the year ended December 31	
	2023	2022
	NIS millions	
Total net interest income	**6,685**	3,578
Non-interest financing income	**8**	7
Total net financing profit	**6,693**	3,585
Fees and other income	**1,571**	1,594
Total income	**8,264**	5,179
Provision (income) for credit losses	**397**	23
Total operating and other expenses	**3,954**	3,827
Profit (loss) before taxes	**3,913**	1,329
Provision for taxes (tax benefit) on profit (loss)	**1,357**	464
Net profit (loss) attributed to shareholders of the Bank	**2,556**	865
Net credit to the public at the end of the reported period	**37,663**	*38,880
Deposits from the public at the end of the reported period	**250,792**	238,333

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to the Private Customer Segment totaled NIS 2,556 million in 2023, compared with net profit in the amount of approximately NIS 865 million in the preceding year. The increase mainly resulted from an increase in net financing profit. This increase was partly offset by an increase in the provision for credit losses and by an increase in operating and other expenses.

Net financing profit totaled NIS 6,693 million in 2023, compared with NIS 3,585 million in the preceding year. The increase mainly resulted from an increase in the spread on deposits, due to the increase in the shekel and dollar interest rates.

Income from fees and other income totaled NIS 1,571 million in 2023, compared with NIS 1,594 million in the preceding year. The decrease mainly resulted from a decrease in capital-market fees, and was also influenced by benefits in the area of fees granted to customers to help cope with the impacts of the war in the fourth quarter. This decrease was partly offset by an increase in credit-card fees, due to the update of the operational agreement with Isracard, and by an increase in fees in respect of conversion differences.

A provision for credit losses in the amount of NIS 397 million was recorded in 2023, compared with a provision in the amount of NIS 23 million in the preceding year. The increase mainly resulted from an increase in the collective allowance and automatic charge-offs in the current period, due to adjustments in respect of macroeconomic effects, in view of the increase in the probability of economic deceleration and a high interest-rate environment over a long period, and the expected effect of the impacts of the war, as estimated at the time of preparation of the financial statements.

Operating and other expenses of the segment totaled NIS 3,954 million in 2023, compared with NIS 3,827 million in the preceding year. The increase mainly resulted from an increase in salary expenses, due to a one-time bonus in respect of the wage agreement, and from an increase in IT expenses and in software depreciation and impairment expenses.

Net credit to the public totaled approximately NIS 37.7 billion as at December 31, 2023, compared with approximately NIS 38.9 billion as at December 31, 2022.

Deposits from the public totaled approximately NIS 250.8 billion as at December 31, 2023, compared with approximately NIS 238.3 billion as at December 31, 2022.

For additional information regarding the risk of credit to private individuals, see the section "Credit risk" in the Report of the Board of Directors and Board of Management.

7.5.2. Small Business Segment

General information and segment structure

The Bank provides a range of banking services and financial products to small businesses. The segment's activities are conducted through the Bank's nationwide branch network and through the direct channels (see the section "Private Customer Segment" above). The branch network also provides necessary services to business customers of the Corporate and Commercial Segments.

During the year, as part of the Bank's focus on small and mid-sized businesses, two branches specializing in businesses were opened in Petach Tikva and Haifa.

Services for the segment's customers include routine account management, alongside extensive efforts aimed at support for and growth of this segment, including targeted credit tailored to customers' needs through a wide range of products.

Products and services

The Bank offers a wide range of products and services to its customers, within its strategy of focusing on the expansion of its activity in the Small Business Segment, including financing for business activities, a set of products and services for the expansion of a business, advanced digital services, and a service center specializing in businesses. The Bank has also continued the activity of the Financial Growth Center, which provides small businesses across Israel with knowledge and tools for business management and growth.

In view of the Swords of Iron War, the Bank put several measures in place for its business customers, including an offer of loans in amounts of up to NIS 250,000, exempt from interest for three months, with repayment over 36 additional months at reduced interest. In addition, within the Swords of Iron track in the state-backed fund, the Bank is offering businesses harmed by the war a loan at the Prime interest rate only, with a grace period of up to one year on the principal and interest.

For details regarding other actions taken by the Bank due to the war, and benefits for its business customers operating in southern and northern Israel and for customers drafted for reserve military duty, see the section "Private Customer Segment," above.

Marketing and distribution

Marketing and distribution in Israel are conducted face-to-face or over the telephone at the Bank's branches, through Poalim by Telephone, and through the various digital properties, both proactively and in response to customers' inquiries. Marketing initiatives are also reflected in advertising in newspapers, on television, on the Internet, on the radio, on billboards, and at branches. In recent years, the Bank has significantly expanded its use of marketing via digital media, on the internet and on mobile applications, which allows a targeted approach to customers according to their interests and the characteristics of their online activity. Since the outbreak of the Swords of Iron War, the reliefs, benefits, and services for business customers have been communicated through various internal and external media.

Customers

The Small Business Segment includes small and mid-sized business customers from a wide range of economic sectors. The segment also handles the private accounts of business clients.

Competition

Activity in this segment requires expertise and in-depth familiarity with the customer in order to provide full, comprehensive, professional service and manage credit risks. Over recent years, non-bank competitors have entered this field, such as credit-card companies and non-bank financiers, as well as fintech companies. The Bank works to continually adapt the products and services provided to its customers, and to provide access through a range of service channels.

Technological changes that may have a material impact on the segment

Opening accounts for business customers using digital channels

In 2023, the Bank introduced a digital interface that business customers can use to enter information and signatures on the documents required to open a corporate account. The user-friendly process enables customers to complete this procedure without visiting a branch, saving time and hassle.

Bit application

Creation of collaborations with aggregators to promote value offers for small businesses and connections to e-commerce platforms, so that small businesses can accept payment from their customers, with no annual ceiling. Businesses can receive payment remotely through a website, application, or text message, or at a point of sale.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

For information regarding regulatory initiatives that may have an impact on the activity of the segment, see the section "Regulatory initiatives," below.

See the section "Private Customer Segment," above.

Table 7-7: Results of operations and principal data of the Small Business Segment

	For the year ended December 31	
	2023	2022
	NIS millions	
Total net interest income	**2,805**	1,909
Non-interest financing income	**5**	6
Total net financing profit	**2,810**	1,915
Fees and other income	**661**	635
Total income	**3,471**	2,550
Provision (income) for credit losses	**393**	104
Total operating and other expenses	**1,370**	1,345
Profit (loss) before taxes	**1,708**	1,101
Provision for taxes (tax benefit) on profit (loss)	**592**	382
Net profit (loss) attributed to shareholders of the Bank	**1,116**	719
Net credit to the public at the end of the reported period	**32,729**	34,998
Deposits from the public at the end of the reported period	**70,395**	70,243

Principal changes in net profit and balance sheet balances

Net profit attributed to the Small Business Segment totaled NIS 1,116 million in 2023, compared with NIS 719 million in the preceding year. The increase mainly resulted from an increase in net financing profit and an increase in fees and other income. This increase was partly offset by an increase in the provision for credit losses.

Net financing profit totaled NIS 2,810 million in 2023, compared with NIS 1,915 million in the preceding year. The increase mainly resulted from an increase in the spread on deposits, due to the increase in the shekel and dollar interest rates.

Income from fees and other income totaled NIS 661 million in 2023, compared with NIS 635 million in the preceding year. The increase mainly resulted from an increase in credit-card fees, due to an update of the operating agreement with Isracard.

A provision for credit losses in the amount of approximately NIS 393 million was recorded in 2023, compared with a provision in the amount of approximately NIS 104 million in the preceding year. The increase mainly resulted from an increase in the collective allowance and automatic charge-offs in the current period, due to adjustments in respect of macroeconomic effects, in view of the increase in the probability of economic deceleration and a high interest-rate environment over a long period, and the expected effect of the impacts of the war, as estimated at the time of preparation of the financial statements.

Operating and other expenses of the segment totaled NIS 1,370 million in 2023, compared with NIS 1,345 million in the preceding year. The increase mainly resulted from an increase in salary expenses due to a one-time bonus in respect of the wage agreement.

Net credit to the public totaled approximately NIS 32.7 billion as at December 31, 2023, compared with approximately NIS 35.0 billion as at December 31, 2022. The decrease mainly resulted from an increase in repayments, along with a decrease in demand for credit due to the increase in the interest rate.
Deposits from the public totaled approximately NIS 70.4 billion as at December 31, 2023, compared with approximately NIS 70.2 billion as at December 31, 2022.

7.5.3. Housing Loan Segment

General information and segment structure

The Bank offers housing loans to private customers, from Bank funds as well as through government assistance programs, via mortgage advisors stationed at Mishkan representative offices at various branches located nationwide.
Applications for in-principle approval of housing loans can also be submitted via digital channels and Poalim by Telephone.

Products and services

The main activity of this segment is granting housing loans. This activity is targeted to private customers who apply for a loan for one of the following purposes:

- A loan for the acquisition, construction, expansion, or renovation of a home.
- A loan for the acquisition of land for the construction of a home, or acquisition of an interest in a home.
- A loan granted with a mortgage on a home, other than for business purposes.
- A loan for the prepayment of a loan as described above.

Mortgage underwriting is performed and examined based on four essential components: repayment capability, collateral (the proposed property to be pledged), financing rate, and spreads.

Targeted benefits in the area of mortgages

In 2022-2023, in view of the rising interest rate and inflation in Israel and in response to its customers' needs, the Bank introduced solutions to help cope with the increase in the Prime rate:

- The option to spread the Prime component of a mortgage over a longer period (with no change in the terms of the loan and at no cost).
- In January 2023 and May 2023, the Bank announced two measures to absorb increases in the Bank of Israel interest rate in the Prime component of mortgages, for a period of one year, at a rate of 0.5% and 0.25%, respectively, for customers who may have difficulty with their mortgage payments, based on predefined criteria. The Bank has decided that for those customers who were granted absorption of the previous increase in the interest rate (in May 2023), it will also absorb the coming increases, until the end of this year, up to a rate of 0.5%, for a period of one year from any increase in the interest rate. For customers who were granted absorption by the Bank of the increase in January 2023, the period of the benefit will be extended by an additional six months (until June 2024).
- A service line, staffed by mortgage advisors, established for customers with existing mortgages at the Bank and customers of other banks interested in examining the data of their personal mortgage and possible solutions that would be best for them.

At the outbreak of the Swords of Iron War, the Bank announced a series of significant benefits for its customers in the area of mortgages. The Bank is granting full exemption from mortgage payments for three months to customers with assets under lien to the Bank (for the purposes of the mortgage) that are located in Otef Aza and Sderot (within the range of 0-7 km from the Gaza Strip). The benefit refers to three monthly payments: November-December 2023 and January 2024, and is to be applied automatically.
In addition, due to the Swords of Iron War, on October 15, 2023, the Bank of Israel issued an outline for assisting customers in coping with the impacts of the Swords of Iron War (the "Outline"), which also addresses the deferral of mortgage payments, according to the population category to which the customer belongs (directly affected customers or other customers). The Outline was expanded and extended on December 17, 2023, and is in effect until March 31, 2024. According to the Outline, each bank is permitted to choose a method of application of the mortgage payment deferral for directly affected customers. The Bank chose the method of providing a loan in respect of the deferred payments, as detailed in the Outline.

Marketing

The Bank advertises and markets the option to take out a mortgage at the Bank through various advertising media. Housing loans are granted to customers of the Bank and to customers of other banks, subject to the opening of an account at the Bank.

Customers

The Bank grants housing loans (for non-business purposes) to customers.

Competition

The area of housing loans is characterized by a high level of competition. Housing loans are a significant economic transaction for households, and customers therefore tend to conduct market surveys and compare prices, on their own behalf or through external mortgage advisors.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Extensive, dedicated regulation applies to housing loans, in addition to the general regulation, including that applicable to credit granted by the Bank.

- **Proper Conduct of Banking Business Directive 451, Procedures for Granting Housing Loans –** The directive was amended on July 19, 2023, to improve the process of prepayments of housing loans, including through a different banking corporation or an institutional lender other than a banking corporation (in refinancing). Thus, borrowers will be able to give notice of their intention to prepay a loan online or via telephone. In the course of refinancing a loan through another bank, borrowers will be able to choose whether to give notice of their intention to prepay the loan directly to the original bank or through the new bank (without detracting from any right the borrower may have under any law). In addition, banking corporations shall add the option for borrowers to request a letter of intent online and via telephone, and to receive the letter in the manner of their choice, allowing saving and printing of the letter. In the case of refinancing from another bank, the letter shall be transferred directly between the banks through a digital interface, with the document signed electronically. Banks shall apply the same practice with institutional lenders (if there is no cause for reasonable refusal). The inception date is one year from the date of publication of the Proper Conduct of Banking Business Directive (the date is expected to be postponed to October 20, 2024, as stated in the draft of Proper Conduct of Banking Business Directive 251 issued on October 24, 2023).
- **The Insurance Contract Law (Amendment no. 12), 2013 –** Pursuant to the amendment of the Insurance Contract Law of July 13, 2023, in the event that an institutional lender is designated as an irrevocable beneficiary in a policy in the context of a housing loan, the insured party may retract the designation without the consent of the first beneficiary, provided that another institutional lender is designated as beneficiary of the same policy within a new housing loan taken from the other institutional lender. The substitution of the irrevocable beneficiary will take effect on the day of repayment of the housing loan granted by the first beneficiary.
- **Economic Plan Law (Legislative Amendments for Implementation of the Economic Policy for the Budget Years 2023 and 2024), 2023 –** See the section "Regulatory initiatives," below.
- **Proper Conduct of Banking Business Directive 251, "Adjustments of the Proper Conduct of Banking Business Directives to Cope with the 'Swords of Iron' War (Temporary Order)" –** On October 31, 2023, the Bank of Israel issued Proper Conduct of Banking Business Directive, which contains various limited-term adjustments of the Proper Conduct of Banking Business Directives aimed at coping with the war and its impacts on the Israeli economy, and at helping the banking system and its customers cope with the challenges of the current situation. Within the adjustments, the following Proper Conduct of Banking Business Directives were amended, among other matters:
  - The periods established in Proper Conduct of Banking Business Directive 451 for the issuance of the following documents by banks were extended: letters of intent, confirmation of settlement, notification that the bank has insured the customer with insurance on behalf of the bank in cases in which the policy presented by the customer does not meet the bank's requirements, and confirmation of a second-level lien on an asset in favor of another party.

- It was determined that Proper Conduct of Banking Business Directive 449 concerning the simplification of agreements does not apply to a customer's application for deferral of payments within an agreement to grant credit, if the deferral is pursuant to the Outline of the Bank of Israel (as defined above).
- It would be determined that notwithstanding the statements in Section 3(a)(1) of the Banking Rules (Service to Customers) (Due Disclosure and Delivery of Documents), 1992, regarding an agreement to grant credit, the customer's signature is not required to execute the customer's request to defer payments, if the deferral is pursuant to the outline of the Bank of Israel, provided that the customer's consent is obtained and documented.
- The inception of the amendment to Proper Conduct of Banking Business Directive 451 of July 19, 2023, which was set at one year from the date of publication of the directive, would be delayed to October 20, 2024.

On December 28, 2023, the Bank of Israel issued an amended version of Proper Conduct of Banking Business Directive 251, which establishes, among other matters, the following directives; the term of this directive and the amendments therein has been extended until March 31, 2024:

- All-purpose loans – A bank is permitted to approve a housing loan other than for the purpose of acquiring property interests, up to a financing rate of 70%, provided that the amount of the loan above a financing rate of 50% does not exceed NIS 200,000. The relief will apply to approvals granted while the directive is in effect.
- Secure rooms – An exemption from the restrictions stated in Sections 5 to 8 of Directive 329 was granted with respect to loans for the purpose of building a secure room with an exemption from a permit according to the Planning and Construction Regulations (Works and Structures Exempt from a Permit) (Temporary Order – Swords of Iron), 2023, released by the Homefront Command, in an amount not exceeding NIS 200,000. The term of the relief is according to the term of the aforesaid Planning and Construction Regulations.

For further information regarding regulatory initiatives that may have an impact on the activity of the segment, see the section "Regulatory initiatives," below.

Table 7-8: Results of operations and principal data of the Housing Loan Segment

	For the year ended December 31	
	2023	2022
	NIS millions	
Total net interest income	**1,411**	1,366
Non-interest financing income (expenses)	**(56)**	(3)
Total net financing profit	**1,355**	1,363
Fees and other income	**46**	47
Total income	**1,401**	1,410
Provision (income) for credit losses	**121**	71
Total operating and other expenses	**486**	454
Profit (loss) before taxes	**794**	885
Provision for taxes (tax benefit) on profit (loss)	**273**	307
Net profit (loss) attributed to shareholders of the Bank	**521**	578
Net credit to the public at the end of the reported period	**131,057**	127,688

Principal changes in net profit and balance sheet balances

Net profit attributed to the Housing Loan Segment totaled NIS 521 million in 2023, compared with NIS 578 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses and from an increase in operating and other expenses.

Net financing profit totaled NIS 1,355 million in 2023, compared with NIS 1,363 million in the preceding year. The decrease resulted from an increase in non-interest financing expenses, offset by an increase in interest income, mainly due to growth in the volume of credit.

A provision for credit losses in the amount of approximately NIS 121 million was recorded in 2023, compared with a provision in the amount of approximately NIS 71 million in the preceding year. The increase mainly resulted from an increase in the collective allowance in the current period, due to adjustments in respect of macroeconomic effects, in view of the increase in the probability of economic deceleration as a result of the impacts of the war, as estimated at this time, and a high interest-rate environment over a long period.

Operating and other expenses of the segment totaled NIS 486 million in 2023, compared with NIS 454 million in the preceding year. The increase mainly resulted from an increase in IT expenses.

Net credit to the public totaled approximately NIS 131.1 billion as at December 31, 2023, compared with approximately NIS 127.7 billion as at December 31, 2022.

For additional information regarding risks in the housing-loan portfolio, see the section "Housing loans" in the chapter "Review of risks" in the Report of the Board of Directors and Board of Management.

7.5.4. Commercial Segment

General information and segment structure

The Commercial Segment provides a wide range of banking services to middle-market business clients. The segment operates through business centers for established customers and business centers for growing customers. Operational services for the segment's customers are provided by customer teams nationwide and by a service center.

Products and services

Services offered by the Bank to customers of the segment include credit for routine operations and investment financing, guarantees, letters of credit, foreign trade, and transactions in financial and derivative instruments. Investment services are also provided, in the various channels: foreign currency, shekels, securities, etc.

The Commercial Segment also provides banking services to clients who operate in the construction and real-estate sector. These banking services include the provision of credit to customers, as well as the issuance of guarantees of various types, including guarantees to buyers of homes pursuant to the Sale Law. The Commercial Segment also serves high-tech industry customers through the Poalim Tech brand, which provides banking services including credit and guarantees, foreign-currency activity, current accounts, etc.

Complementary activities

- **Business Direct Credit –** loans within an approved credit facility, which can be taken through the Business Online website.
- **FX Trader –** an online trading system with a convenient platform accessible to customers.
- **Digital empowerment –** Development of adapted solutions in response to the needs of the customers of the Corporate Banking Division; expansion of the infrastructure for activity on the business website and business application.
- **Digital guarantees –** Development of a platform for the production of digital guarantee files.
- **A digital interface** for documents to open an account.
- **ERPay –** A direct interface for transfers in NIS and foreign currency from the customer's ERP system.

Marketing and distribution

Marketing of banking products and services and distribution to customers are conducted through the Customer Relationship Managers in the Commercial Area and the Sales Management Department in the headquarters of the division. The communication channels commonly used in local banking are available to customers, such as customer teams, service centers, Poalim by Telephone, the website, etc.

Customers

The main areas of activity of the segment's customers are industry, commerce, and construction and real estate; these customers primarily operate in the domestic market. The segment also serves customers engaged in import and export activities.

Competition

The segment is characterized by a high level of competition. The main competitors are the banking corporations. In the area of credit, competition is reflected both in interest rates and fees offered to customers by the competing banks, and in related aspects such as response time and the financing rates which competitors are willing to approve. In addition, alternatives to bank credit are available in the market to some of the segment's customers, such as public and private offerings and credit granted by non-bank financial institutions.

Technological changes

The segment makes use of technological systems to manage processes of analysis of customers' condition, control, and marketing. The Bank applies an ongoing process of improvement in these systems. This process also includes components relevant to serving the segment's customers. A CRM system is used to manage customer portfolios in this segment, and serves as a significant tool for relationship management, sales, and business activities with customers.

Table 7-9: Management approach operating segments – results of operations and principal data of the Commercial Segment

	For the year ended December 31	
	2023	2022
	NIS millions	
Total net interest income	**1,939**	1,605
Non-interest financing income (expenses)	**(34)**	(23)
Total net financing profit	**1,905**	1,582
Fees and other income	**544**	486
Total income	**2,449**	2,068
Provision (income) for credit losses	**881**	76
Total operating and other expenses	**625**	588
Profit (loss) before taxes	**943**	1,404
Provision for taxes (tax benefit) on profit (loss)	**334**	505
Net profit (loss) attributed to shareholders of the Bank	**609**	899
Net credit to the public at the end of the reported period	**59,300**	57,945
Deposits from the public at the end of the reported period	**46,369**	51,425

Principal changes in net profit and balance sheet balances

Net profit attributed to the Commercial Segment totaled NIS 609 million in 2023, compared with NIS 899 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses and from an increase in operating and other expenses. This decrease was partly offset by an increase in net financing profit and an increase in income from fees and other income.

Net financing profit totaled NIS 1,905 million in 2023, compared with NIS 1,582 million in the preceding year. The increase mainly resulted from an increase in the spread on deposits, due to the increase in the shekel and dollar interest rates, and from an increase in credit volumes.

Income from fees and other income totaled NIS 544 million in 2023, compared with NIS 486 million in the preceding year. The increase mainly resulted from an increase in fees from financing transactions, mainly due to partial refunds of premiums paid in the past for Sale Law guarantee insurance.

A provision for credit losses in the amount of approximately NIS 881 million was recorded in 2023, compared with a provision in the amount of approximately NIS 76 million in the preceding year. The increase mainly resulted from an increase in the collective allowance in the current period, due to adjustments in respect of macroeconomic effects, in view of the increase in the probability of economic deceleration as a result of the impacts of the war, as estimated at this time, and a high interest-rate environment over a long period, as well as an increase in the individual provision.

Operating and other expenses of the segment totaled NIS 625 million in 2023, compared with NIS 588 million in the preceding year. The increase mainly resulted from an increase in IT expenses and in software depreciation and impairment expenses, and from an increase in salary expenses.

Net credit to the public totaled approximately NIS 59.3 billion as at December 31, 2023, compared with approximately NIS 57.9 billion as at December 31, 2022.

Deposits from the public totaled approximately NIS 46.4 billion as at December 31, 2023, compared with approximately NIS 51.4 billion as at December 31, 2022.

7.5.5. Corporate Segment

General information and segment structure

The Corporate Segment specializes in providing financial services to large corporations. Credit granting constitutes its principal area of activity. The segment operates through four sectors, each of which contains specialist Customer Relationship Managers (CRMs):

- Real estate;
- Industry, commerce, and hotels;
- Infrastructures, energy, and capital market;
- Project and infrastructure financing.

The sector also specializes in complex financing products, including foreign-trade financing, financing of working capital, financing of assets overseas, complex financing transactions, syndication, and credit-risk transfers.

Also operating within the Corporate Banking Division is the Special Credit Area, which coordinates the handling of customers experiencing financial difficulties in the Corporate and Commercial Segments and endeavors to assist them in restructuring by providing business support.

Products and services

Services offered to customers of the segment include financing of routine operations, financing of investments, financing of infrastructure projects based on the BOT/PFI method, financial services, foreign-trade transactions, and transactions in financial derivatives. Services provided to customers operating in the construction and real-estate sector include financing of construction projects, granting credit to customers, and issuing various types of guarantees, including guarantees to buyers of homes pursuant to the Sale Law.

The segment has complementary activities identical in essence to those provided by the Commercial Segment. For further details, see the section "Commercial Segment," above.

Marketing and distribution

Banking products are marketed and distributed to customers of this segment through Customer Relationship Managers in the Corporate Area, in collaboration with the headquarters of the division. As a key element of this sales platform, product experts, working closely with the CRMs, are at the disposal of the segment's customers, in the areas of the dealing room, investment advising, foreign trade, foreign currency, current accounts, and more. CRMs are in continuous contact with the customers they serve, in order to respond to their banking needs, market the Bank's products, and tailor financing solutions to various transactions.

The communication channels commonly used in local banking are available to customers, such as customer teams, service centers, Poalim by Telephone, the website, etc.

Customers

Customers of the segment are large corporations in Israel, mainly operating in the areas of real estate, industry, the capital market, communications, commerce, hotels, infrastructure, and energy.

Competition

The level of competition in this area is high; competition is reflected in service, prices, financing terms, and rapid response. The Bank Group is contending with growing competition in the Israeli banking system, including from foreign banks with representative offices in Israel. Alternatives to bank credit are available in the market to some of the segment's customers, such as public and private offerings and credit granted by institutional entities and non-bank financial institutions.

Limits on joint loan arrangements (consortium arrangements)

The Restrictive Trade Practices Rules (Type Exemption for Joint Loan Arrangements) (Temporary Order), 2018 (the "Type Exemption") took effect on June 14, 2018. The Type Exemption, with the amendments thereto, establishes the conditions under which a bank is exempt from applying to the Competition Authority for approval of a joint loan arrangement (i.e. granting credit to a corporation jointly with another lender or other lenders included in the definition of a "lender" in the Type Exemption directive). The Type Exemption directives are in effect until May 2026.

In light of the statements in the Type Exemption, in any case in which the Bank intends to grant a loan to any corporation, jointly with banking corporations or financial institutions or similar entities incorporated outside Israel, the Bank must examine the fulfillment of the conditions established in the exemption directives, according to the various alternatives and the circumstances of each transaction.

The directives of the Type Exemption do not apply to joint loan arrangements signed before the inception date of the Type Exemption; such loans are subject to the directives of the letters of the Competition Authority regarding joint loans that were in effect at the signing date of each loan arrangement. However, if any material change occurs in a joint loan arrangement signed based on the aforesaid letters of the Authority, the relevant arrangement must be reexamined in its entirety in accordance with the Type Exemption.

Table 7-10: Management approach operating segments – results of operations and principal data of the Corporate Segment

	For the year ended December 31	
	2023	2022
	NIS millions	
Total net interest income	**2,443**	2,007
Non-interest financing income	**71**	52
Total net financing profit	**2,514**	2,059
Fees and other income	**842**	686
Total income	**3,356**	2,745
Provision (income) for credit losses	**3**	(421)
Total operating and other expenses	**800**	791
Profit (loss) before taxes	**2,553**	2,375
Provision for taxes (tax benefit) on profit (loss)	**910**	853
Net profit (loss) attributed to shareholders of the Bank	**1,643**	1,522
Net credit to the public at the end of the reported period[(1)]	**123,994**	108,316
Deposits from the public at the end of the reported period	**94,775**	75,585

(1) Includes the balance of credit in respect of borrowing and lending activity and in respect of limiting of exposure in derivatives in the amount of approximately NIS 15,114 million as at December 31, 2023, and in the amount of approximately NIS 10,882 million as at December 31, 2022.

Principal changes in net profit and balance sheet balances

Net profit attributed to the Corporate Segment totaled NIS 1,643 million in 2023, compared with NIS 1,522 million in the preceding year. The increase mainly resulted from an increase in net financing profit and an increase in fees and other income, partly offset by an increase in the provision for credit losses.

Net financing profit totaled NIS 2,514 million in 2023, compared with NIS 2,059 million in the preceding year. The increase mainly resulted from an increase in credit volumes and from an increase in the spread on deposits, due to the increase in the shekel and dollar interest rates.

Income from fees and other income totaled NIS 842 million in 2023, compared with NIS 686 million in the preceding year. The increase mainly resulted from an increase in fees from financing transactions, partly due to partial refunds of premiums paid in the past for Sale Law guarantee insurance, and an increase in syndication fees.

A provision for credit losses in the amount of NIS 3 million was recorded in 2023, compared with income in the amount of NIS 421 million in the preceding year. The change mainly resulted from a decrease in individual income.

Operating and other expenses of the segment totaled NIS 800 million in 2023, similar to the preceding year.

Net credit to the public totaled approximately NIS 124.0 billion as at December 31, 2023, compared with approximately NIS 108.3 billion as at December 31, 2022.

Deposits from the public totaled approximately NIS 94.8 billion as at December 31, 2023, compared with approximately NIS 75.6 billion as at December 31, 2022.

7.5.6. International activity

General information

The international activity of the Bank Group includes the New York branch and representative offices in the United States, as well as relationships maintained with banks around the world.

Most of the international business banking activity of the Bank is conducted through the New York branch, which focuses on providing comprehensive banking services to Israeli companies operating in the United States, as well as to local companies and clients, including credit, foreign trade, deposits, and dealing-room services. The New York branch also offers its customers FDIC deposit insurance.

Activity with banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see the section "Credit exposure to foreign financial institutions" in the Report of the Board of Directors and Board of Management).

In the area of global private banking, the Bank is completing the process of discontinuing its operations overseas and closing its subsidiaries, as detailed below.

Legislative restrictions, standards, and special constraints applicable to international activity

The activity of the International Banking Segment in the various countries (at this time primarily in the United States) is subject to standards relevant to the nature of the activity of the Group in the countries in which its business is conducted (cross-border regulations), and to regulatory supervision by various government agencies in the countries in which the overseas offices of the Bank operate, including requirements concerning capital, holdings of liquid assets, compliance and the prohibition of money laundering, etc.

In addition, rules and limits are imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and regulations, as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad.

For details regarding the conclusion of the investigation of the Bank Group's business with American customers and the FIFA affair, see Note 25.E to the Financial Statements.

International banking activity

New York branch

Most of the Bank Group's international business banking is conducted through the New York branch and through representative offices in the United States, as well as through relationships maintained with banks around the world. The New York branch has activity in the middle-market sector in the United States, through the development of relationships with and granting of direct credit to local commercial clients. The branch also operates in the syndication market, as a complementary activity.

Changes in activity during the year

- Hapoalim (Switzerland) Ltd. (Hapoalim Switzerland), which was mainly engaged in the past in the provision of private-banking services through branches in Zurich and Luxembourg (at this time there are no remaining customer accounts at the company), returned its banking license in July 2023, with the approval of the Swiss regulatory agency (FINMA), and its supervision by the Swiss regulator ended effective June 30, 2023.
- The Bank Group held 100% of the share capital of Bank Pozitif, in Turkey, which is engaged in corporate banking. On March 30, 2023, the Bank entered into an agreement for the sale of its holding in Bank Pozitif, for a consideration primarily consisting of repayment of credit granted to Bank Pozitif at the time of completion of the transaction. On September 13, 2023, the transaction was completed and the holdings of the Bank in Bank Pozitif were transferred to the buyer. The Bank recognized no profit or loss as a result of the completion of the transaction, and it had no other material effect on the financial statements of the Bank.

Table 7-11: Results of operations and principal data of the International Activity Segment

	For the year ended December 31	
	2023	2022
	NIS millions	
Total net interest income	**815**	680
Non-interest financing income (expenses)	**(1)**	(2)
Total net financing profit	**814**	678
Fees and other income	**40**	32
Total income	**854**	710
Provision (income) for credit losses	**88**	107
Total operating and other expenses	**447**	428
Profit (loss) before taxes	**319**	175
Provision for taxes (tax benefit) on profit (loss)	**141**	84
Net profit (loss):		
Before attribution to non-controlling interests	**178**	91
Attributed to non-controlling interests	**-**	(1)
Net profit (loss) attributed to shareholders of the Bank	**178**	90
Net credit to the public at the end of the reported period	**18,072**	17,210
Deposits from the public at the end of the reported period	**29,129**	24,767

Principal changes in net profit and balance sheet balances

Net profit attributed to the International Activity Segment totaled NIS 178 million in 2023, compared with net profit in the amount of NIS 90 million in the preceding year.

The principal changes in the results of international activity are set out below:

- The net profit of the New York branch totaled approximately NIS 241 million in 2023, compared with net profit of approximately NIS 178 million in the preceding year. The increase mainly resulted from an increase in net financing profit, offset by an increase in operating expenses. The increase in net financing profit mainly resulted from an increase in credit volumes, and from an increase in deposit spreads, due to the increase in the dollar interest rate.
- The loss of Hapoalim Switzerland totaled approximately NIS 63 million in 2023, similar to the loss recorded in 2022.

Total net credit to the public in international activity amounted to approximately NIS 18.1 billion as at December 31, 2023, compared with approximately NIS 17.2 billion as at December 31, 2022, primarily originating with the New York branch. Most of the credit and growth of credit are in activity in the middle-market sector. Total deposits from the public in international activity amounted to approximately NIS 29.1 billion as at December 31, 2023, compared with approximately NIS 24.8 billion as at December 31, 2022, primarily originating with the New York branch.

7.5.7. Financial Management Segment

General information and structure

The activity of this segment includes:

- Activity in the banking book – Management of assets and liabilities, including the management of market and liquidity risks (for details regarding these risks, see the section "Review of risks" in the Report of the Board of Directors and Board of Management), through the establishment of internal transfer prices (see below), investment portfolio management, issuance of bonds and notes, deposits with banks outside Israel, and the execution of transactions in derivative financial instruments. The segment's activity in the banking book is mostly conducted through the Asset and Liability Management (ALM) Area in Israel and abroad, and through the Nostro Investment Management Unit, which is responsible for managing the portfolio of corporate bonds.
- Activity in the trading books – Market making and trading activity in the dealing rooms in the areas of foreign currency, interest rates, government bonds, and OTC derivatives.
- Trading activity with customers, in two areas:
  - Execution of transactions in securities and in tradable derivatives, through two dealing rooms: a dealing room for Israeli securities and a dealing room for foreign securities, as well as securities custody services.
  - OTC transactions in derivative financial instruments in NIS, foreign currency, interest rates, indices, and commodities through the dealing room. Service is provided to a range of customers, including institutional entities, business firms, selected private customers, and foreign customers, through dedicated desks providing personal service.
- The activity of this segment with customers also includes support for the development and pricing of sophisticated financial products.

Most of the income of the segment derives from exposure management in the banking book and in the trading book, and from spreads and fees in the dealing rooms' activity and operational services for customers. In addition, in calculating its income, the segment includes the results of the management of a portfolio of shares and bonds and investments in equity-basis investee companies.

This segment is also responsible for managing relationships with banks and financial institutions around the world, and is responsible for providing services to customers operating in Israel in a range of areas, including the capital and money markets.

Activities, products, and services

The banking book – asset and liability management

The Asset and Liability Management Area ("ALM Area") of the Bank is responsible for managing the assets and liabilities of the Bank, over the range of activities of the various segments. The ALM Area sets internal transfer prices ("Wholesale Rate") for raising and allocating resources for the use of the various segments. The Wholesale Rate constitutes the basis for the activity of the various segments with the Bank's customers, and is used to debit and credit the segments. The Wholesale Rate serves as a means for market and liquidity risk management.

The Bank accords high importance to raising resources that are stable and highly diversified. The Bank has varied sources of financing, primarily arising from deposits from the public in Israel, the large majority of which are from retail customers, with no dependence on any single depositor or group of depositors. The Bank also takes deposits from large institutional and corporate clients. In addition, the Bank raises resources through bonds and capital instruments (subordinated notes) issued by the Bank.

Funding in foreign currency includes deposits of private customers and corporate customers in Israel, foreign residents, Global Private Banking customers, Israeli companies abroad, issues of CDs and other instruments secured by the FDIC in the United States, issues of bonds abroad, NIS-foreign currency swap transactions, and repo transactions.

As part of market and liquidity risk management, the Financial Markets and International Banking Division maintains a bond portfolio, consisting of government bonds and corporate bonds, including bonds of financial institutions. The portfolio is managed by the ALM Unit and the Nostro Investment Management Unit of the Bank.

Nostro investment activity is aimed at increasing flexibility in the management of the banking book, while taking advantage of opportunities to improve returns on liquidity surpluses and diversify areas of activity. The investment portfolio is part of the banking book, and includes investments in bonds and shares, in Israel and overseas.

Trading activity – dealing room (OTC and derivatives)

The Bank provides comprehensive services to its customers through its dealing rooms (OTC and derivatives), allowing them to operate in a range of financial instruments, with various underlying assets, for trading, protection, and risk-hedging purposes. Transactions with the Bank's customers are conducted in accordance with the credit limits allocated to them by the credit authorities at the Bank, and on the basis of the Bank's internal models. The models specify credit exposures for transactions executed in the dealing room. Awareness of the activities offered by the dealing room has grown steadily in recent years, leading the Bank to offer a broader range of products with a higher level of sophistication, such as derivatives, including interest-rate options in NIS, exotic options, and sophisticated interest-rate products. In response to these needs, and in order to preserve the Bank's standing as a leader and innovator, the product range in Israel includes complex products such as derivatives (which include interest-rate options in NIS), exotic options, and sophisticated interest-rate products.

As part of the Bank's trading activity, the dealing room is one of the primary market makers in government bonds, and serves as a market maker in most of the products in which it operates.

Brokerage and custody services

The Bank offers its customers services for the execution of transactions in securities and in tradable derivatives, through two dealing rooms: a dealing room for Israeli securities and a dealing room for foreign securities; in addition, securities custody services are provided.

Services for financial asset managers

The Bank provides services to financial-asset managers: managers of mutual funds, managers of investment portfolios, and managers of provident funds, study funds, and pension funds.

The Bank also offers services related to account management for mutual funds, including, among other matters, asset revaluation, production of control reports, and preparation of reports to government agencies.

On December 31, 2023, the value of assets of mutual funds for which the Bank provides services related to account management, at various volumes, totaled approximately NIS 101 billion.

Services for financial institutions

The Banks and Financial Institutions Department is responsible for managing relationships and business connections with banks and financial institutions around the world. These relationships support the Bank's varied business activities, including foreign trade, trading in foreign currency, deposits, derivatives, and securities.

Within its activity with foreign banks and financial institutions, the Bank provides a wide range of services, including sub-custody services for leading foreign custodian banks active in Israel in the area of securities.

Competition

In recent years, Israel's financial markets have grown progressively more sophisticated. This is particularly notable in the broader range of products available to investors and market players. Various types of tradable instruments as well as derivative instruments are becoming more accessible.

Competition in all areas related to the activity of the dealing room and the securities trading rooms is extensive and intense. The principal competitors are the four major banking groups in Israel, foreign banks, and other financial companies specializing in this area.

Customers

The segment provides diverse services to all customers of the other segments at the Bank, both through the Bank's branches and CRMs, and through direct contact with large clients. The dealing room conducts marketing activity with foreign financial institutions, which has led to substantial expansion of the volume of activity with these customers (in the range of products for which the Bank serves as a market maker).

Regulation of activity

During the routine course of business, the Bank, and within it the Financial Management Segment, maintain extensive ties with the world's leading financial institutions. Business relations between the Bank and these entities in the various capital markets are based, among other things, on standard international arrangements, such as: framework agreements supporting the activity of dealing rooms, special agreements to minimize credit risks aimed at limiting credit risk in derivatives (credit support annex), or activity via international clearinghouses, to minimize counterparty risks and settlement risks in transactions in foreign currencies and in interest rates.

Table 7-12: Management approach operating segments – results of operations and principal data of the Financial Management Segment(1)

	For the year ended December 31	
	2023	2022
	NIS millions	
Total net interest income	**(13)**	2,322
Non-interest financing income	**1,274**	544
Total net financing profit	**1,261**	2,866
Fees and other income	**139**	163
Total income	**1,400**	3,029
Provision (income) for credit losses	**(4)**	6
Total operating and other expenses	**496**	474
Profit (loss) before taxes	**908**	2,549
Provision for taxes (tax benefit) on profit (loss)	**276**	875
Profit (loss) after taxes	**632**	1,674
The Bank's share in profits of equity-basis investees, after taxes	**18**	99
Net profit (loss):		
Net profit (loss) attributed to shareholders of the Bank	**650**	1,773
Net credit to the public at the end of the reported period	**4,566**	*3,690
Deposits from the public at the end of the reported period	**63,135**	72,235

* Reclassified.

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

Principal changes in net profit and balance sheet balances

Net profit attributed to the Financial Management Segment totaled NIS 650 million in 2023, compared with NIS 1,773 million in the preceding year. The decrease mainly resulted from a decrease in net financing profit. Net financing profit of the segment totaled NIS 1,261 million in 2023, compared with NIS 2,866 million in the preceding year. The decrease mainly resulted from an increase in interest in respect of sources transferred to the divisions of the Bank. In addition, losses from realization of bonds increased, and income from linkage differentials decreased, as a result of changes in the rate of the known CPI between the periods. By contrast, profits were recorded from investment in shares, and from a change in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis, compared with losses in the same period last year.

Fees and other income totaled NIS 139 million in 2023, compared with NIS 163 million in the preceding year.

Operating and other expenses of the segment totaled NIS 496 million in 2023, compared with NIS 474 million in the preceding year. The increase mainly resulted from an increase in IT expenses.

Net credit to the public totaled approximately NIS 4.6 billion as at December 31, 2023, compared with approximately NIS 3.7 billion as at December 31, 2022.
Deposits from the public totaled approximately NIS 63.1 billion as at December 31, 2023, compared with approximately NIS 72.2 billion as at December 31, 2022. The decrease mainly resulted from a decrease in balances of major depositors.

7.5.8. Adjustments

This section includes activities of the Bank Group with immaterial volumes, each of which does not form a reportable segment. This includes, among other things: (1) the results of the subsidiaries Diur B.P. Ltd. and Peilim Investment Portfolio Management Ltd.; (2) capital gains from the sale of buildings and equipment; (3) legal and other provisions and expenses in connection with the investigation of the Bank Group's business with American customers which are not attributed to international activity; (4) adjustments of inter-segmental activities.

Principal changes in net profit and balance sheet balances

Net profit attributed to the segment totaled NIS 87 million in 2023, compared with net profit in the amount of NIS 86 million in the preceding year.
Fees and other income totaled NIS 187 million in 2023, compared with NIS 229 million in the preceding year. The decrease resulted from a decrease in capital-market fees and from a decrease in other income, as a result of the sale of property interests in the comparison period.
Operating and other expenses of the segment totaled approximately NIS 53 million in 2023, compared with NIS 65 million in the preceding year.

7.6. Restrictions and supervision of the activity of the banking corporation

General information

The Bank operates under laws, regulations, and directives, some of which are unique to the banking system, and some of which, even if not unique, affect material parts of its activity. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Supervisor of Banks constitute the central legal foundation for the Bank Group's activity. Among other matters, they define the boundaries of the activities permitted to the Bank, the activities permitted to the subsidiaries and related companies of the Bank Group, the terms of control and ownership of such companies, the relationships between the Bank and its customers, the usage of the Bank's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.
In addition, the Bank is subject to extensive legislation regulating its activity in the capital market, both on behalf of its customers and on its own behalf (e.g. in the areas of investment advising and customer portfolio management, pension advising, securities laws, and restrictions on insurance activity).
Other laws on specific topics impose specific duties and rules on banks, including the Bank. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation related to housing loans, guarantee laws, etc.

Additional legislation related to the Bank's activity has a strong influence on its conduct. Noteworthy in this area are execution laws, liquidation and receivership laws, laws referring to specific segments (local authorities, mortgage takers, home buyers, the agricultural sector), and various tax laws.

The Bank's activity is subject to supervision and auditing by the Banking Supervision Department, as well as other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; and the Competition Commissioner. These agencies carry out audits at the Bank, from time to time, concerning the various areas of activity.

The Bank and its subsidiaries work to comply with the duties imposed upon them under the aforesaid legal provisions.

The legislation establishes the possibility, with regard to most of the laws applicable to the activity of the Bank, to impose monetary sanctions for violations of the directives of the laws and the secondary legislation (including circulars and guidelines) issued in the past or future under such laws.

Regulatory initiatives

Regulatory guidelines and legislation due to the Swords of Iron War

The Swords of Iron War broke out in Israel on October 7, 2023.

- **On October 12, 2023, the Banking Supervision Department issued a letter to the banking system on the subject, "Swords of Iron War – supervisory emphases for the treatment of debts and reporting to the public."** The letter contains emphases regarding functional continuity, exposure to risks, and the required assistance and support for customers of the banking system. Among other matters, the letter addresses the permission to relocate branches in an emergency, within which it announces a state of emergency, pursuant to Proper Conduct of Banking Business Directive 355, which states that due to an emergency banks are permitted to relocate branches and provide services at mobile branches and post offices.
- **On October 15, 2023, the Bank of Israel issued a comprehensive outline** aimed at helping customers of the banking system cope with the impacts of the war. The outline includes, among other matters, relief of the burden of credit and fees for households and businesses residing and operating within 30 km of the Gaza Strip, citizens evacuated from their homes by official agencies, citizens called up for reserve military duty by "Order 8" emergency draft, and first-degree relatives of a person killed, abducted, or missing due to the war. The outline addresses deferral of loans payments in three segments of activity (mortgages, consumer credit, and business credit), negative balances in current accounts, and fees. For this group, loans will be deferred without interest or fee charges. The outline also lists a series of reliefs in the area of credit for all customers of banks. This outline has been adopted by the Bank. On December 17, 2023, the Bank of Israel announced the extension of the outline until March 31, 2024. On March 4, 2024, the Bank of Israel announced that the outline would be extended until June 30, 2024 (for additional information, see the section "Impacts of the Swords of Iron War" in the Report of the Board of Directors and Board of Management).

- **On October 18, 2023, the Law for Deferral of Dates (Temporary Order – Swords of Iron) (Contract, Judgment, or Payment to a Government Agency), 2023**, for the deferral of payment dates for specific population groups harmed by the war, passed in a second and third reading. The deferral will apply to payments to government agencies, private individuals, businesses, and banks between October 7 and November 7, with an option for extension until December 31, 2023, with the consent of the Minister of Defense and the Minister of Finance and with the approval of the Foreign Affairs and Defense Committee of the Knesset.
  - Eligible population – IDF soldiers; police officers; prison guards; firefighters; rescue forces; missing persons and abductees; injured people hospitalized for over one week; residents evacuated from Otef Aza, Ashkelon, and the northern border (the law contains a detailed list of towns, which was expanded to apply to evacuated residents of the north on October 20, 2023); spouses thereof; and companies owned by any of the above (a holding rate greater than 50% in a company with no more than five shareholders).
  - Deferred payments – Loans, mortgages, checks, credit-card charges (the deferral does not apply to a transaction paid in installments).
  - Deferral of payments under a contract – Requires an active request by the customer or someone acting on their behalf. Deferral can also be obtained subject to a declaration by the customer.

  The Order for Deferral of Dates (Temporary Order – Swords of Iron) (Contract, Judgment, or Payment to a Government Agency) (Extension of Determinant Period and Deferral Period) was published in the Official Gazette of the Israeli Government on November 7, 2023. The order extended the determinant period by one month, until December 7, 2023, and correspondingly extended the deferral period from thirty days to sixty days, or until December 31, 2023, whichever is earlier.

The Law for Deferral of Dates (Temporary Order – Swords of Iron) (Contract, Judgment, or Payment to a Government Agency) (Amendment) (Deferral of Dates in the Second Determinant Period), 2023, was released on December 31, 2023, establishing the "second determinant period" – January 1, 2024, to February 29, 2024. Any charge that applies within the second determinant period shall be deferred by 31 days and is not bound by a date, in contrast to the first deferral period (established in Section 2(2)), which was 145 days or until February 29, 2024, whichever is earlier.

- On October 19, 2023, the Bank of Israel issued a letter of clarifications concerning reports to the credit data system. The letter clarifies the method of reporting to the database, in view of business reliefs granted to customers by the reporting entities, including reliefs pursuant to the law. A circular was also issued containing a requirement to mark reports to the database with a note due to the events of the Swords of Iron war. On November 9, 2023, the Supervisor of Credit Data Sharing issued an update of Directive 201 on the subject, "Reporting on Credit Data." The update of the directive was established as a temporary order, according to which past-due payment to a source of financial information would be reported to the database only after 60 days have elapsed from the date of formation of the unpaid amount, in contrast to the 30 days currently stated in Directive 201 with regard to such sources of information.

- On October 22, 2023, the Bank of Israel issued Proper Conduct of Banking Business Directive 251, "Adjustments of the Proper Conduct of Banking Business Directives to Cope with the 'Swords of Iron' War (Temporary Order)," presenting a series of reliefs for the continued sound activity of the banking system and assistance for its customers. The directive was in effect until December 31, 2023, and was not extended.
  - **Proper Conduct of Banking Business Directive 308A, "Addressing Complaints of the Public" –** Banks are granted flexibility regarding the manner of responding and replying to messages from customers and regarding the manner of publication of the extension of the period for replies. This relief expired on December 31, 2023.
  - **Proper Conduct of Banking Business Directive 325, "Management of Credit Facilities in Current Accounts"** – Deviations from credit facilities in order to accept debits.
  - **Proper Conduct of Banking Business Directive 367, "E-Banking" –** Banks and credit-card companies are granted the option to send their customers notices via e-banking channels, in addition to sending the messages in the way agreed upon with the customer, such as sending notices via Israel Post, for notices with a material effect, provided that the receipt of the message is urgent for the customer, even if the customer is not a party to an e-banking agreement. For clarification, such notices also include notices regarding the operation of the bank during the emergency, as well as notices regarding benefits granted by the bank to its customers in existing products and services, aimed at assisting them in view of the war. This relief expired on November 22, 2023.
  - **Proper Conduct of Banking Business Directive 411, "Management of Money Laundering and Terrorism Financing Prohibition Risks" –** To help banking corporations respond to the arising need to raise funds for aid due to the war, Annex B2 was updated such that the threshold for money transfers and money credits in the Bit app was raised to NIS 200,000 per year.

On November 1, 2023, the Bank of Israel issued an update of Proper Conduct of Banking Business Directive 251, "Adjustments of the Proper Conduct of Banking Business Directives to Cope with the Swords of Iron War" (Temporary Order), containing reliefs in connection with additional Proper Conduct of Banking Business Directives:

- **Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy – Standardized Approach – Credit Risk" –** The directive requires a risk weight of 150% to be assigned to loans intended for the acquisition of land for development or construction granted at a financing rate greater than 80%. Interest for customers as a result of a grace period added to the amount of the credit is expected to increase the financing rate, and may cause the financing rate to rise above 80%, leading to a risk weight of 150%. To prevent a regulatory barrier to grace periods being granted to customers during this period, it was clarified that interest accrued in this manner would not be taken into consideration in calculating the financing rate.
- **Proper Conduct of Banking Business Directive 311, "Credit Risk Management"**
  - The period for which a report is considered up to date was extended by three months, for a total of twelve months from the date of the financial statements.
  - The period in which semiannual financial data can be presented was extended by three months, to a total of 6 (six) months.

- **Proper Conduct of Banking Business Directive 360, "Rotation and Continuous Vacation" –** It was determined that if the maximum period of time established by a banking corporation for the execution of a sensitive role by a manager or employee expires by December 31, 2023, the banking corporation is permitted to extend the maximum period until March 31, 2024, provided that controls are put into practice. It was further determined that employees with sensitive roles and other position holders who must utilize continuous vacations by December 31, 2023, are permitted to utilize the vacations until March 31, 2024, to the extent possible under any law.
- **Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans" –** In view of the shortage of workers in the banking system due to the war, to allow resources to be redirected to handle urgent cases, particularly of customers harmed by the situation, the periods of time established in the directive within which banking corporations must issue various documents to customers, such as a letter of intent and confirmation of settlement, were extended.
- **Proper Conduct of Banking Business Directive 449, "Simplification of Agreements for Customers" –** To avoid delay in implementation of the special programs formulated during this period to assist customers of the banking system by deferring loan payments, a relief has been granted with regard to the due-disclosure requirement established in Directive 449.
- **Directive of the Supervisor of Banks regarding due disclosure –** To avoid delay in implementation of the special programs formulated during this period to assist customers of the banking system by deferring loan payments, it has been established that customers' consent can be obtained in various ways, at the discretion of the bank, including via telephone call, provided that it is documented.

On November 21, 2023, the Bank of Israel issued an update of Proper Conduct of Banking Business Directive 251, "Adjustments of the Proper Conduct of Banking Business Directives to Cope with the Swords of Iron War" (Temporary Order), containing reliefs in connection with additional Proper Conduct of Banking Business Directives:

- **Proper Conduct of Banking Business Directive 310, "Risk Management" –** In view of the special situation and the manpower shortage, a decision was made to allow banking corporations that have not yet reviewed and approved risk-management policy documents this year to complete this requirement by March 31, 2024, subject to discussions being held by the board of directors and management regarding the impacts of the security and economic situation on risk-management policy and on the risk profile of the banking corporation.
- **Proper Conduct of Banking Business Directive 360, "Rotation and Continuous Vacation" –** The period for utilization of a continuous annual vacation was extended, for employees with sensitive roles and for other position holders, until April 30, 2024, instead of March 31, 2024, in order to facilitate utilization of the continuous vacation by the employees. This, of course, is only to the extent possible according to any law; control mechanisms have also been established.

- **Proper Conduct of Banking Business Directive 411, "Management of Money Laundering and Terrorism Financing Prohibition Risks" –** In response to non-profit organizations' need to help families harmed due to the war, issuers of charge cards were given the option to increase the facility for recharging anonymous cards (for single or multiple use) issued for use in a closed loop of businesses, such that the amount recharged in a calendar year does not exceed NIS 10,000, and the amount recharged at a given time does not exceed NIS 5,000, provided, among other matters, that the card is issued for non-profit organizations engaged in aid due to the war.
- **Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans" –** In light of the shortage of employees in the banking system as a result of the war, and to allow the redirection of resources to address urgent cases, particularly of customers harmed by the situation, and to respond to customers who make contact with regard to the outline for assistance to customers in coping with the impacts of the Swords of Iron War, the dates established in the directive within which a bank must issue an in-principle approval to customers, when the bank assents to their application for a housing loan, were extended.
- **Directive of the Supervisor of Banks pursuant to Section 3(A1) of the Banking Rules (Service to Customers) (Due Disclosure and Delivery of Documents), 1992 (Section 16 of the directive) –** To provide relief to customers in advanced stages of the process of receiving a housing loan, who are required to sign loan documents during the current period but encounter difficulties in doing so because it is difficult for one of them to visit a branch of the bank due to the Swords of Iron War, it was determined that the consent of a borrower who cannot sign loan documents due to the war can be accepted in different ways, at the discretion of the bank, after identification of the customer and documentation of their consent, provided that the other borrowers are required to sign the loan documents according to the requirements in the rules.

On December 31, 2023, the Bank of Israel issued an update of Proper Conduct of Banking Business Directive 251, "Adjustments of the Proper Conduct of Banking Business Directives to Cope with the Swords of Iron War" (Temporary Order), adding several reliefs and extending the term of some of the existing reliefs:

- **Section 21 of Directive 311A** stated that a customer should not be contacted proactively after replying in the negative to a similar credit proposal in the past, for at least three months. Because customers had fallen into cash-flow or financial difficulties due to the Swords of Iron War, and for some of the customers three months may not have elapsed since the last time they were proactively contacted with a proposal for consumer credit, this time limit was lifted. The purpose was to enable banks to contact those customers whose financial condition had worsened during the war and inform them of the possibility of taking credit, in order to assist them.

- **Proper Conduct of Banking Business Directive 329, "Limits on Housing Loans" –** To support the activities of the Planning Administration and Homefront Command aimed at reducing gaps in protection, a decision was made to remove the restrictions in the directive, as stated, on loans for the construction of a secure room covered by the exemption from a permit, up to an amount of NIS 200,000. In addition, to assist the public and respond to the credit needs of households, banks will be permitted to approve all-purpose loans in which a residence is mortgaged (a housing loan other than for the purpose of acquiring property interests), at a financing rate of up to 70%, instead of 50%, provided that the amount of the loan at a financing rate greater than 50% does not exceed NIS 200,000. It is clarified that the relief will apply to approvals granted while the directive is in effect.

  Banks will be permitted to approve all-purpose loans in which a residence is mortgaged (a housing loan other than for the purpose of acquiring property interests), at a financing rate of up to 70%, instead of 50%, provided that the amount of the loan at a financing rate greater than 50% does not exceed NIS 200,000. It is clarified that the relief will apply to approvals granted while the directive is in effect.
- **Proper Conduct of Banking Business Directive 357, "Information Technology Management" –** Due to the war, some banking corporations are encountering difficulties in implementing the instruction to perform a safety survey of systems at high risk and e-banking systems at least once every eighteen months. The purpose of the amendment is to provide relief to such banking corporations and allow postponement of the deadline for performing the aforesaid survey to no later than June 30, 2024, to permit organizing to perform the survey, without detracting from other obligations to which they are subject in this context.

On February 4, 2024, the Bank of Israel issued an update of Proper Conduct of Banking Business Directive 251, "Adjustments of the Proper Conduct of Banking Business Directives to Cope with the Swords of Iron War" (Temporary Order), adding a relief and extending the term of an existing relief:

- **Proper Conduct of Banking Business Directive 311, "Credit Risk Management"**
  - The period for which a report is considered up to date was extended by three months, for a total of fifteen months from the date of the financial statements.
  - The period in which semiannual financial data can be presented was extended by three months, to a total of nine months.
- **Proper Conduct of Banking Business Directive 329, "Limits on Housing Loans" –** To support the reduction of gaps in protection, a decision was made to also remove such limits in connection with loans for the improvement of protection of a residence, by companies authorized by the Homefront Command to reinforce a room within the home, as published on the website of the Homefront Command, up to an amount of NIS 200,000.

- **On October 26, 2023, the Ministry of Justice issued an amendment to the Checks Without Cover Regulations (Qualifications of the Application of the Law), 2023.** The regulations establish qualifications of the application of the law, such that checks refused due to insufficient funds during the specified period are subtracted from the number of checks counted for the purpose of restricting the customer's account. The period specified in the regulations is divided into two parts. In the first period – from October 7, 2023, to October 31, 2023 – the qualifications of the law apply to all customers (individuals or corporations). In the second period – from November 1, 2023, to November 30, 2023 – the qualifications of the law apply to a specific population of customers, including, among others, an individual or corporation residing in one of the towns included in the addendum to the Law for Deferral of Dates; a missing person, abductee, or hostage; anyone serving in reserve military duty under emergency circumstances; and more. Concurrently, the Bank of Israel released a document on October 20, 2023, containing clarifications of the amendment and the method of implementation of the regulations. An amendment to the Checks Without Cover Regulations (Qualifications of the Application of the Law) was issued on December 28, 2023, extending the application of the qualifications until January 21, 2024.
- **The Law for Protection of Special Grants (Swords of Iron), 2023, was published in the Official Gazette of the Israeli Government on November 2, 2023.** The law establishes protection of certain grants decided upon since the beginning of the fighting, and authorizes the Minister of Finance and the Minister of Justice to determine that additional administrative grants are also protected. The Order for Protection of Special Grants (Swords of Iron) (Amendment of Addendum) was issued on December 3, 2023, stating that grants paid to reserve soldiers are protected against foreclosure. An additional expansion of the order was issued on January 3, 2024, following a government resolution concerning an additional grant to be given to residents of the north and south evacuated from their homes due to the Swords of Iron War. It was resolved that these grants would also be protected against foreclosure.

The Bank has provided many benefits to its customers in light of the Swords of Iron War. For additional information regarding the benefits, see the section "Operating segments based on the management approach," above.

Regulatory reforms for increased competition in the banking system

In recent years, numerous regulatory initiatives have been formulated that are primarily aimed at increasing competition and encouraging innovation in the banking system in Israel. Some of these initiatives have been put into practice, while others are still in various phases of formulation and implementation, including the following.

Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel

The Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Strum Law"), was published in January 2017, on the basis of the report of the public committee appointed by the Minister of Finance and the Governor of the Bank of Israel (the Strum Committee).

Following a discussion of the Economics Committee of December 27, 2021, regarding the reduction of credit facilities, the Ministry of Finance and the chairperson of the Economics Committee agreed, in coordination with the Bank of Israel, to decrease the reduction of credit facilities in credit cards established in the Strum Law. Accordingly, on January 30, 2022, an order of the Minister of Finance was approved that amends Section 9(c) of the Law for Increasing Competition and Reducing Concentration in the Banking Market, extending the reliefs granted by an additional year, until January 31, 2023, such that credit facilities are to be reduced by 45% of the total credit facilities granted to the public in 2015, instead of 50%, and the lowest threshold for the reduction of an existing credit facility is NIS 7,500 instead of NIS 5,000. The rate of reduction changed to 49% in 2023; credit facilities lower than NIS 8,500 will not be taken into account in the calculation of the reduction of credit facilities. Recently, the Minister of Finance decided to issue an order aimed at reducing the harm to customers of the banks. On January 31, 2023, an order of the Minister of Finance was approved that amends Section 9(c) of the Strum Law such that in 2023, credit facilities are to be reduced by 25% of the total credit facilities granted to the public in 2015, instead of 50%, and the lowest threshold for the reduction of an existing credit facility is NIS 10,000 instead of NIS 5,000 in the original law.

The Economic Plan Law (Legislative Amendments for Implementation of the Economic Policy for the Budget Years 2023 and 2024), Chapter G – Banking and Credit, eliminates the section restricting credit facilities, Section 9(c) of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments). The elimination took effect as of January 31, 2024.

Open API

On November 4, 2021, the Knesset passed legislation concerning the promotion of open banking – the Financial Information Services Law, 2021. The law emphasizes the following matters, among others: a system of agreements between the customer (including all partners in the account), the information services provider, and the consumer of the information; prohibition of collection of fees for the service; the option to cancel the service; information-security arrangements; etc. The law took effect on June 14, 2022.

The law specifies sets of information to become operational on the following dates: Phase 3, which includes access to additional information of the customer (credit, deposits, and savings), was launched on October 31, 2022; Phase 4, which includes information regarding customers' securities portfolio, launched on September 19, 2023. Expansion of the information for corporations is being implemented in two increments: information regarding corporations with turnover of up to NIS 5 million and a single authorized signatory (small businesses) was introduced in January 2023; the launch date for information regarding other corporations is April 14, 2024.

Default deposit

On July 6, 2023, the Ministry of Finance issued a call for the positions of the public in advance of a tender which the ministry intends to release to banks concerning a default deposit. The purpose of this measure is to create competition in interest rates on deposits. The tender refers to deposit plans for various terms, and will be won by the bank proposing the highest interest rate. Other banks will be required to display the winning bank's deposit plan and allow their customers to deposit monies into this plan. Customers who choose to transfer money to a default deposit will be able to do so through a closed system. At the end of the period, the money will revert to the original bank. The Bank has submitted its comments regarding the call for positions.

Declaration of banks as a concentration group

On June 29, 2023, the Governor of the Bank of Israel met with the Competition Commissioner, following the Commissioner's announcement that she was considering declaring the banks a concentration group and issuing directives to them in the area of deposit taking.

The main directives under consideration, as described in the statement of the Competition Commissioner:

1. Prohibitions on ties between deposits and the receipt of other banking services.
2. Imposition of a mandate on banks to accept deposits from non-bank payment companies that seek to act as "deposit aggregators."
3. Reduction of barriers to the transfer of deposits separately from the rest of the banking offering.
4. Directives requiring banks to present relevant comparative information to customers via "push" notifications.

The Commissioner's examination has not yet been completed, and the Competition Authority is still in the process of formulating the considered directives, while conducting talks with additional relevant regulators, primarily the Bank of Israel. Later in this process, if the Commissioner does decide to declare a concentration group and issue directives, a hearing will be held.

Government initiatives in the area of payments

Israel's economic plan for 2023-2024 and the Economic Policy Law, also known as the "Arrangements Law," were passed on June 8, 2023.

The Arrangements Law includes the legislation of Chapter B, concerning:

- Regulation of engagement in payment services by non-bank entities, aimed at allowing these entities to participate in the payment market as significant players. Pursuant to the law, services that will require licensing and supervision by the Israel Securities Authority include, among others: issuing means of payment, giving payment orders, clearing activities, transferring money to a beneficiary without managing an account, managing a payment account allowing the transfer of payments for goods and services, etc.

- Basic and advanced payment initiation between entities that receive approval or license accordingly. The law states that a requirement to perform basic payment initiation will apply as of December 2024, and that as of June 2026 banks will be required to allow advanced payment initiators to contact them to request the execution of payments through the bank. Consumer protections pertaining to these services have also been established.
- Promotion of connectivity between payment apps and payment accounts – The payment app Bit, owned by the Bank, will be required to allow connectivity with other payment apps, permitting money to be transferred directly between the apps. The implementation date is June 6, 2024. BCC, under the direction of the Payment Department at the Bank of Israel, will build the connectivity system.

Initiatives of the Bank of Israel in the area of payments

- **Immediate payments –** A means of transferring payments from one account to another immediately, initiated and led by the Bank of Israel through BCC. The Bank is preparing to implement this directive on schedule.
- **R2P (basic payment requests) –** A service accompanying the immediate payment service, allowing beneficiaries to send a digital request for payment to payers.
- **Transfer via identifying information –** A service for immediate money transfers between accounts using identifying information such as a mobile phone number or email address, through the system operator BCC, beginning June 8, 2024.
- **On November 3, 2023, the Bank of Israel issued a letter on the subject, "Access to payment systems – requirement for representation in clearing,"** in which it states that a representative participant shall not unreasonably refuse to represent a payment service provider in clearing, provided that the payment service provider complies with the conditions for access to the payment system.

Protection of privacy

On February 15, 2024, the Privacy Protection Authority issued a policy document on gathering and using biometric information to monitor workplace attendance.

On September 10, 2023, the Privacy Protection Authority issued draft guidelines for comments from the public concerning the role of the board of directors in complying with the duties of the company under the Protection of Privacy Regulations (Information Security).

The Protection of Privacy Regulations (Directives Regarding Information Transferred to Israel from the European Economic Area), 2023, were issued on May 7, 2023. The regulations will apply to information in a database in Israel that has been transferred from the European Economic Area, excluding information transferred directly by a person about themselves, and to any other information in a database in Israel that contains information transferred to Israel from the European Economic Area.

The Protection of Privacy Bill (Amendment 14), 2022, passed in the first reading in the Knesset on January 5, 2022. The amendment is expected to adapt the existing regulation in Israel in this area to the technological and societal developments, and to the European legislation (GDPR); to reduce the requirement to register databases; and to expand the administrative enforcement authority of the Privacy Protection Authority. On March 26, 2023, a decision was made to apply the rule of continuity to the bill. The bill is still under discussion by the Constitution Committee of the Knesset.

Directives of the Bank of Israel on additional matters that were issued or took effect during the reported period

- **Proper Conduct of Banking Business Directive 424, "Opening a Current Account with a Positive Balance for Financial Entities" –** On December 24, 2023, the Bank of Israel issued an update of the Proper Conduct of Banking Business Directive, formalized based on the amendment to the Banking Law (Service to Customers), 1981 (within the Arrangements Law). The directive states in any case of a refusal to open an account, the bank is required to deliver its decision regarding the refusal to open the account in writing, near the date of the decision, to the financial entity, and the decision must include details of the reasons for the refusal, subject to all laws. In addition, within the delivery of the decision, the bank should indicate to the financial entity that it is permitted to apply to the Banking Supervision Department with regard to the refusal. In addition, in the event that three months have elapsed since the date of the financial entity's application to open an account at the bank, and the financial entity has not been provided notification regarding the approval or refusal of the application, the bank shall provide written notification to the financial entity containing details of the reasons for the delay, including the option for the financial entity to contact the Banking Supervision Department regarding the delay. The bank is also required to report to the Banking Supervision Department on any refusal to open an account for a financial entity, or a delay in opening an account of more than three months from the date of submission of the first application by the financial entity to open an account at the bank.
- **Proper Conduct of Banking Business Directive 333, "Interest-rate Risk in the Banking Book" –** On December 20, 2023, the Bank of Israel issued an update of Proper Conduct of Banking Business Directive 333. The directive established principles according to which banks are required to manage interest-rate risk in the banking book, and in particular, requirements to take effective action to identify, measure, monitor, control, and disclose the risk.
- **Proper Conduct of Banking Business Directive 218, "Leverage Ratio" –** On December 20, 2023, the Bank of Israel issued an update of the Proper Conduct of Banking Business Directive, which states that minimum rates of the leverage ratio shall stand at 4.5% and 5.5%, instead of 5% and 6%, respectively, until June 30, 2026. However, it is clarified that the rate of the leverage ratio shall not fall below the rate on December 31, 2025, or the rate of the leverage ratio required of the banking corporation as stated in Section 7, whichever is lower.

- **Draft Proper Conduct of Banking Business Directive 311, "Credit Risk Management" –** On November 7, 2023, the Bank of Israel issued an update of Proper Conduct of Banking Business Directive 311. The definition of "significant credit exposure" in Section 44 of the directive has been amended such that the threshold criterion for involvement of the risk manager in credit exposure is NIS 50 million, or 1% of the capital of the bank (whichever is lower), instead of NIS 25 million. Banks are permitted to set the threshold at NIS 25 million, as it exists in the current version, even if it exceeds 1% of Tier 1 capital.
- **Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans" –** On July 19, 2023, the Bank of Israel issued an update of the Proper Conduct of Banking Business Directive stating, among other matters, that borrowers would be able to give notice of their intention to prepay a loan online or via telephone, and to receive the required information and documents in the prevalent ways, including online, according to the borrower's choice, in a format that allows saving and printing. In addition, in the course of refinancing a loan using a loan from another bank, borrowers will be able to choose whether to give notice of their intention to prepay the loan directly to the original bank or through the new bank. Borrowers also will not be required to visit the branch of the original bank to receive the documents required for the process of refinancing a loan. These documents will be transferred from the original bank directly to the new bank. The directive will take effect in October 2024.
- **Proper Conduct of Banking Business Directive 461, "Activity of a Banking Corporation as a Broker-Dealer" –** On July 19, 2023, the Bank of Israel issued a new Proper Conduct of Banking Business Directive concerning the regulation of all banking activity in the areas of securities and foreign-currency derivatives, including the receipt and transfer of orders for the execution of transactions in securities for customers, both in their capacity as intermediaries and via trading for their own account. The directive is based on globally prevalent standards, including the requirements set forth in the Markets in Financial Instruments Directive (MiFID II) in Europe. The directive will take effect in January 2025.
- **Draft Proper Conduct of Banking Business Directive 420, "Sending Notices via Means of Communication" –** On July 6, 2023, the Bank of Israel issued a draft update of a Proper Conduct of Banking Business Directive, requiring banks to send customers a notice at the beginning of each month stating the total amount of fees and interest collected by the bank from the customer during the month preceding the sending of the notice, including fees and interest charged for housing loans. The draft implements the amendment to the Banking Law (Service to Customers) enacted as part of the Arrangements Law for 2023 (see the section "New legislation," below). A final version has not yet been released.
- **Draft Proper Conduct of Banking Business Directive 367, "E-Banking" –** On July 5, 2023, the Bank of Israel issued a draft update of Proper Conduct of Banking Business Directive 367. Section 29 of the directive was amended such that all customers can be contacted via messages, including voice messages, without the need to execute an e-banking agreement, to send notices on the following subjects: encouraging customers with a positive current-account balance above a certain threshold, to be determined by the bank, to redirect monies held in the current account to more profitable interest-bearing channels or to channels that reduce the total interest they pay to the bank; and aid by the bank for mortgage takers identified as currently experiencing or likely to experience difficulties.

- **Proper Conduct of Banking Business Directive 473, "Distribution of Credit Cards" –** On June 29, 2022, the Bank of Israel issued a new Proper Conduct of Banking Business Directive concerning the distribution of credit cards. It was determined that any distribution agreement signed between a bank and issuers would obligate the bank to allow the issuers to use the bank's means of distribution, including distribution at branches, in consideration for a distribution fee. Banks are prohibited from unreasonably refusing to contract with an issuer in a distribution agreement, and the Bank of Israel can determine the conditions that are considered unreasonable.
- **Proper Conduct of Banking Business Directive 345, "Principles for Effective Management of Climate-Related Financial Risks" –** On June 12, 2023, the Bank of Israel issued a Proper Conduct of Banking Business Directive establishing principles which banking corporations are required to follow to optimally manage their exposure to climate-related financial risks, based on a document published by the Basel Committee in June 2022. The directive will take effect in June 2025.
- **Proper Conduct of Banking Business Directive 411, "Management of Money Laundering and Terrorism Financing Prohibition Risks" –** On June 12, 2023, the Bank of Israel issued an update of Proper Conduct of Banking Business Directive 411 adjusting the directive to international standards with respect to international transfers, further to the FATF monitoring report on the State of Israel. The requirement in Annex B2 regulating identification procedures in payment applications was expanded to allow the use of means of payment issued by a financial entity other than a banking corporation, and Annex B5 was added, extending the period of time during which an account can be opened in reliance on a new immigrant (Oleh) document to 90 days from the date of issuance of the document (instead of 30 days). Another update of the directive was issued on December 31, 2023, extending the relief granted in Annex B5 until June 30, 2024.
- **Proper Conduct of Banking Business Directive 434, "Joint Accounts – 'Survival' Clause and Treatment of Existing Liabilities at Death" –** On June 11, 2023, the Bank of Israel issued an update of Proper Conduct of Banking Business Directive 434. The directive states, among other matters, that banks must offer their customers a "survival" clause in agreements to open a joint account, and present the clause in a salient and clear manner with an explanation of its implications. Guidelines were also established with regard to existing liabilities in means of payment (such as credit cards) issued for the use of the deceased partner, with the aim of helping the surviving partners act to settle existing debts in means of payment issued for the use of the deceased partner that are linked to the account, including authorizations to debit means of payment and payment transactions. Banks must also send a one-time notice to all owners of existing joint accounts who have not chosen to have this clause apply to them, to draw their attention to this matter and ascertain their needs, and, to the extent necessary, to assist them in making changes in the agreements on this subject. The directive will take effect in September 2024.

- **Proper Conduct of Banking Business Directive 501, "Management of Customer Support Service Systems" –** On March 29, 2023, the Bank of Israel issued a directive formalizing principles and work processes in the area of customer service and support. Among other matters, the directive establishes principles for the provision of service and support to customers of banks through the various service channels. Banks must establish and publish a service covenant in which they express the service concept and policy they wish to promote towards their customers, and a service-level agreement (SLA) that specifies the services offered, the channels for service and support, the terms for receiving the various services through the different service channels, and the service level to which the bank commits in each service channel. Most of the sections of the directive will take effect in June 2024.
- **Proper Conduct of Banking Business Directive 422, "Opening a Current Account with a Positive Balance and Managing an Account" –** On March 29, 2023, the Bank of Israel released a final version of Proper Conduct of Banking Business Directive 422, which establishes, among other matters, cases in which the argument of "reasonable refusal" is unacceptable with respect to opening a current account with a positive balance and managing an account through basic payment services. It was further established that sweeping rules should not be enacted to deny basic means of payment or bar a customer from activity in an account solely because the customer belongs to a particular population category, and that each application should be examined in its own right and subject to discretion. In addition, the basic payment services stated in the directive were expanded. Accordingly, and particularly in view of the reduction of branches, in general, all customers are to be permitted to execute payments and receive services and information in their accounts, including through e-banking channels. The directive will take effect in June 2024.
- **Proper Conduct of Banking Business Directive 310, "Risk Management" –** On February 26, 2023, the Bank of Israel issued an update of the Proper Conduct of Banking Business Directive, stating that risk assessment performed as part of the process of approving a new product must address the protection of customers' interests. In addition, a definition of the term "cryptographic asset" was added, and a requirement was established to report in writing to the Supervisor of Banks, among other matters, prior to commencing activity related to cryptographic assets.

New legislation

- On February 14, 2024, the Bank of Israel issued a call for comments from the public regarding the promotion of an outline for granting graduated banking corporation licenses to non-bank entities. The outline proposes three grades of banking licenses for entities that meet the regulatory requirements. The goal of the outline is to promote competition in the banking system by expanding the number of players with banking licenses offering credit and deposits. The Bank is formulating its position regarding the call for comments.
- An amendment to Banking Law (Service to Customers) (Amendment no. 37) was passed by the Knesset plenum in a second and third reading on January 24, 2024, stating that a bank must give notice 21 days before a banking benefit ends. Banks must notify customers in writing, in a way that allows immediate and accessible communication, to the extent possible, unless the customer has asked not to receive messages in that way, and, in addition, via message in the way agreed upon between the bank and the customer. The law will take effect in August 2024.

- On January 14, 2024, the government passed Government Resolution 1269, which calls for the restriction of lending in cash by financial entities. To implement the government resolution, a bill was passed in the first reading by the Knesset plenum on February 12, 2023, promoting a change in legislation in the Law for the Reduction of the Use of Cash, such that the prohibition on granting loans in cash also applies to a supervised financial entity, as defined in the Law for the Reduction of the Use of Cash, in the amount of the limit set in the law on loans granted in cash, at NIS 6,000.
- On February 7, 2024, the 2024 state budget bill, referred to as the Balance Plan Bill (Legislative Amendments for the Achievement of the Budget Goals for the Budget Year 2024) (hereinafter: the "Balance Plan"), was passed in the first reading by the Knesset plenum. The bill contains a chapter on increasing state revenues, which includes the following, among other matters:

  The Special Payment for the Achievement of the Budget Objectives Law (Temporary Order – Swords of Iron) – On March 4, 2024, the bill was approved by the Finance Committee of the Knesset for a second and third reading as part of the balance plan, which will be approved by the Knesset plenum later in March. The bill states that a bank other than a bank with a small volume of activity ("a bank with assets at a value lower than 5% of the value of assets of all banks in Israel") would pay the state treasury an annual payment in 2024 and 2025 in an amount equal to 6% of the profit it derives from its activity in Israel.
- **Memorandum of Law for Adjudication of Interest and Linkage, 2022 –** The Law for Adjudication of Interest and Linkage, 2022, was published in the Official Gazette of the Israeli Government on November 19, 2023, after being passed in a second and third reading. The law applies amendments to the Law for Adjudication of Interest and Linkage, based on the recommendations of the interministerial committee appointed in 2018 to examine interest rates according to the Adjudication of Interest Law. Among other matters, the updates include two alternatives for the calculation of the basic interest rate only (NIS and linked), and a change and reduction in the penalty interest mechanism. This law will take effect on October 1, 2024.
- **Memorandum of Law for Money-Market Funds (Legislative Amendments), 2023 –** The Ministry of Finance, in collaboration with the Israel Securities Authority, issued the Money-Market Funds Memorandum of Law on August 31, 2023. The memorandum allows the creation of money-market funds with characteristics similar to those of deposits (low-risk principal, expected return estimated in advance, and fixed withdrawal dates). The funds would be excluded from the Advising Law and would be sold at banks by bankers, rather than solely by investment advisors. It is further proposed that distribution channels be expanded, so that non-bank parties under the supervision of the Israel Securities Authority can also market the funds, in order to make the products more accessible to the public.

- **Memorandum of Law for the Regulation of Securitization Transactions (Legislative Amendments), 2023 –** The Ministry of Finance issued the Securitization Memorandum of Law on July 30, 2023. The memorandum implements the conclusions of the interministerial committee for the promotion of securitization in Israel, which were published in 2015, and covers three main areas: regulation of securitization transactions and the legal outcomes thereof; regulation of the offering to the public of notes issued by the designated corporation; and regulation of tax aspects of securitization transactions. A system position has been submitted by the Association of Banks. In addition, on January 14, the government passed a decision proposal, in advance of the promotion of the economic plan for 2024, which included, among other matters, the section "Promoting the regulation of securitization in Israel," in which it is noted that "The draft of the Law for the Amendment of the Income Tax Ordinance will be adjusted to establish neutral taxation principles for the transactions, to allow the existence of a securitization market in Israel."
- **Insurance Contract Law (Amendment no. 12) (Transfer of Life Insurance Beneficiary Between Banking Corporations) –** Took effect on July 13, 2023. The law states that customers who refinance their mortgages can keep their existing life-insurance policy with the first lender (the first bank) and replace the beneficiaries, i.e. register the second lender as the first-ranked beneficiary, without receiving the consent of the first lender for its removal from the policy as irrevocable beneficiary.
- **As part of the Economic Plan Bill (Legislative Amendments for Implementation of the Economic Policy for the Budget Years 2023 and 2024), Chapter G – Banking and Credit was legislated.** This chapter is aimed at regulating the following matters:
  - A bank that refuses or delays for more than three months in providing any of the services listed in Section 2(A) of the Banking Law (Service to Customers) to a financial entity or a payment company supervised by the Israel Securities Authority shall notify the Supervisor of Banks accordingly and shall provide the reasoning for the refusal to provide the service or the reason for the delay in providing the service.
  - As of January 1, 2024, banks are required to send a notice to every customer, at the beginning of each month, in each of the ways the bank communicates with the customer, specifying the total amount of fees, and as of June 2, 2024, also the interest, collected by the bank from the customer during the month preceding the date on which the notice is sent. Fees and interest related to housing loans will be sent to customers as of June 2, 2024.
  - An amendment to Section 7D(b) of the Banking Law (Service to Customers) states that as of September 1, 2023, a bank, within a contractual engagement between the bank and the customer, shall allow an operating entity to and shall not prevent it from receiving the customer's consent to use information that comes into its possession in the course of issuance or issuance operation, for the purpose of providing services to the customer.

7.7. Ratings of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

Table 7-13: Rating

Bank Hapoalim

Rater	Rating subject	Rating	Rating outlook	Date of rating/ rating approval
Maalot	Long-term issuer rating	ilAAA	Stable	February 12, 2024
	Bonds (Series 100, 200, 101, 201, 202, 203)[1]	ilAAA		February 12, 2024
	Subordinated notes with a loss-absorption mechanism (Series E, F, G, I, J, K)[1]	ilAA		February 12, 2024
Midroog	Long-term deposits	Aaa.il	Stable	December 26, 2023
	Short-term deposits	P-1.il		December 26, 2023
	Bonds (Series 100, 200, 101, 201, 202, 203)[1]	Aaa.il	Stable	December 26, 2023
	Subordinated notes with a loss-absorption mechanism (Series E, F, G, I, J, K)[1]	Aa2.il(hyb)	Stable	December 26, 2023
International rating agency – S&P	Long-term issuer rating[2]	A	Negative[4]	February 8, 2024
	Short-term issuer rating[2]	A-1		February 8, 2024
	Subordinated notes with a loss-absorption mechanism (Poalim $1 CoCo RM)[3]	BBB		February 8, 2024
International rating agency - Moody's	Long-term deposit rating	A3	Negative[5]	February 15, 2024
	Short-term deposit rating	P-2		February 15, 2024
International rating agency - Fitch	Long-term issuer rating[7]	A	Rating watch negative[6]	January 3, 2024
	Short-term issuer rating[7]	F1+		January 3, 2024
	Subordinated notes with a loss-absorption mechanism (Poalim $1 CoCo RM)[3]	BBB		January 3, 2024

(1) Bond series 202 and 203 and subordinated note series I and J are series that have replaced bond and subordinated note series (series 35 and 36, and subordinated notes Kaf and Kaf Aleph, respectively) of Hapoalim Hanpakot, which was merged into the Bank on September 26, 2023, with no change in the ratings of the series. See the Immediate Reports of the Bank of October 10, 2023, reference no. 2023-01-114378, with regard to the announcement by Maalot, and reference no. 2023-01-114531 with regard to the announcement by Midroog.

(2) As of August 2021, S&P assigns a rating identical to the rating of the Bank to the New York Hapoalim branch, which is not a separate legal entity.

(3) Traded on the Retzef Mosdi'im (TACT Institutional) system.

(4) Further to the state of war and the assignment of a negative outlook to the rating of the State of Israel by the rating agency S&P, the rating agency also assigned a negative outlook to the rating of the Bank (and the ratings of additional banks); see the Immediate Report of the Bank, with regard to the notification by S&P, of November 1, reference no. 2023-01-120597.

(5) Further to the state of war and the downgrade of the rating of the State of Israel, with a negative outlook, by the rating agency Moody's, the rating agency also downgraded the rating of the Bank (and the ratings of additional banks) for the long term (A3) and the short term (P-2), with a negative outlook. See the Immediate Report of the Bank regarding the notification by Moody's of February 14, reference no. 2024-01-016047.

(6) Further to the state of war and the placement of the rating of the State of Israel on a negative watch list by the rating agency Fitch, the rating agency also placed the rating of the Bank (and the ratings of additional banks) on a negative watch list. See the Immediate Report of the Bank regarding the notification by Fitch of October 20, 2023, reference no. 2023-01-096559.

(7) As of May 2023, Fitch has assigned an additional ex-government support (xgs) rating to financial institutions; a long-term rating of A- (xgs) and a short-term rating of F1 (xgs) have been assigned to the Bank.

Table 7-13: Rating (continued)

State of Israel

Rater	Long-term rating	Short term	Rating outlook
International rating agency - S&P	AA-	A-1+	Negative[1]
International rating agency - Moody's	A2		Negative[1]
International rating agency - Fitch	A+	F1+	Rating watch negative[1]

(1) Further to the state of war, on October 17, 2023, Fitch announced that it had placed the rating of the State of Israel on rating watch negative; on February 9, 2024, Moody's announced a downgrade of the rating of the State of Israel to A-2, with a negative outlook; and on October 24, 2023, S&P announced that it had assigned a negative outlook to the rating of the State of Israel.

7.8. Social involvement and contribution to the community; social banking

Strategy and vision

Bank Hapoalim, alongside its business operations, has been committed for many years to the advancement of the society and community of Israel, and has taken action to reduce inequalities and create equal opportunities.

Based on this approach, the Poalim Community Foundation, within the Social Banking Center, promotes hundreds of initiatives aimed at strengthening employment, education, and financial resilience and lessening inequalities for hundreds of thousands of adults, children, and adolescents from every part of Israel. This extensive activity is conducted through partnerships forged with non-profits and social organizations, and takes the form of community engagement, monetary donations, money-equivalent contributions, financing and running of workshops at the Financial Growth Center, and widespread volunteering by the employees and managers of the Bank.

In view of its many years of commitment to society and the community, the Bank added the concept of impact banking to its vision, reflecting its complete world view: "Committed to growth through impactful, innovative, fair banking for our customers."

Ongoing activities

The community engagement of Poalim Community in 2023 was expressed in a cumulative financial expenditure of approximately NIS 41 million. The budget for this activity is established based on a predetermined formula, in reference to the net profit of the last three years. This decision is made separately for each specific year, and approved within the overall budget of the Bank. Of the total expense, approximately NIS 850 thousand was donated to non-profit organizations with a connection to a related party of the Bank, following approval of the donations by the Audit Committee of the Board of Directors.

Community aid provided by the Bank during the Swords of Iron War

- Poalim Rebuild – The Bank has announced the foundation of a dedicated aid fund in the amount of NIS 100 million, which will work to strengthen and develop the personal, community, and economic resilience of people, communities, and businesses in the Western Negev region in the immediate and long term.

At the outbreak of the war, the Bank established a dedicated emergency aid system and fund, at a total amount of NIS 10 million from Poalim Community. This fund, with a large network of volunteers, provided extensive assistance to people injured in mind and body, to displaced families from the conflict zones, to soldiers, to abducted people, and to businesses that had been harmed:

- Body and mind – The Bank granted wide-ranging support to dozens of hospitals: Soroka, Barzilai, Laniado, Beilinson, Ichilov, Tel Hashomer, Beit Loewenstein, and others; rescue organizations: Magen David Adom, United Hatzalah, and Ezra Lemarpe; Yad Sarah; the IDF Disabled Veterans Fund; and support for the activity of ZAKA.
- Soldiers, police officers, members of the defense forces, and rapid-response squads received equipment from the Bank on an immense and unprecedented scale, delivered to them in the field, including medical supplies and meals at assembly areas. Bank volunteers visited and gave gifts to injured soldiers.
- Displaced people – The Bank provided monetary support, supplies, and direct aid to thousands of Otef Aza residents who were evacuated to Jerusalem, Tiberias, the Dead Sea, Eilat, and other locations. The Bank also assisted with temporary and permanent accommodations for thousands of displaced people. The families also received long-term rental vehicles, financed by the Bank. The Bank supplied essential equipment to centers for displaced people, according to their requests – washers, driers, and refrigerators – and distributed thousands of laptop computers, tablets, and mobile chargers.
- Displaced children and adolescents – Thousands of hours of recreational activities were provided, including surfing with the organizations Hagal Sheli and Ziv Neurim, scuba diving, bicycling, and activities with the organization Krembo Wings and volunteers from the Bank.
- Great Mall Challenge – The Bank held a financial education activity for families during the Hannukah holiday at nine major shopping malls and at hotels hosting displaced people. Over 60,000 people participated.
- The Bank supported the establishment of the Safe Space compound in Sderot. The compound is planned to serve as an incubator dedicated to startups and small businesses from the region of Sderot and the Western Negev.
- This year, as a mark of identification with residents and businesses of the Western Negev region, the Bank doubled its aid to the non-profit organization Shikma-Habesor Tourism Association and the member municipalities, which has operated the Darom Adom Festival for nineteen years. With the Bank's sponsorship, a mobile fair will be held this year at three locations in Israel, as a festival with a theme of renewed blossoming. Sales at the fairs will go directly to business owners and tourism operators of the Western Negev, whose products will be sold at the event by the non-profit.
- Social Bit – Over NIS 10 million was collected for Magen David Adom, ERAN emotional first aid services, the Organization for Victims of Terrorism in Israel, One Heart Civilian Emergency Aid Force, the Hostages and Missing Families Forum, and more.

- People with disabilities – Hundreds of people received training on evacuating people with disabilities, in collaboration with Access Israel, with the support of the Bank. In addition, the Signow project enables fluent communication and accessible emotional support in sign language.
- Volunteering – Thousands of employees of the Bank volunteered nationwide, at the Brothers in Arms logistical center, in supporting displaced families, with injured people in hospitals, in agriculture, and more. The Bank announced a day of volunteering for every employee, for this purpose, at the expense of the Bank.
- The Financial Growth Center mobilized to serve as a significant support network, assisting thousands of families and businesses through practical tools for building and maintaining financial resilience and responding to the challenges faced by the public at this time, through meetings, lectures, a questions-and-answers contact center, individual guidance, information about rights, and more.

Activities for society and the community during routine times

The Bank decided to continue to focus, this year, on promoting high-quality employment, to increase individuals' social mobility, independence, sense of capability, and well-being. This effort is conducted through high-quality training and job placement for people from socially and geographically peripheral regions; providing tools and guidance; supporting entrepreneurship, small businesses, and the high-tech industry; encouraging higher education; and empowering the generation of the future.

- The Bank supported fifty initiatives to promote employment, for 25,000 beneficiaries.
- The Bank granted scholarships to more than 400 students, to make higher education more accessible, with a set of tools for quality employment, for the fourth consecutive year.
- More than 1,000 young adults and academic degree holders from population groups underrepresented in the job market found placements in the high-tech industry with the Bank's support (people from the Arab sector and the ultra-orthodox sector, people of Ethiopian origin, and women).
- The Bank granted support and sponsorship to several social organizations providing guidance and tools to approximately 3,000 small businesses, including 8200, Ovrot Veshavot, Ogen, Chasdei Lev, Paamonim, and others.
- In the eighteenth Passover project, over 150,000 young people, adults, families, and children visited more than 170 sites and participated in activities this year.
- The Bank held the Kehil-UP entrepreneurship competition at 36 municipalities, for 350 ventures. Winners were awarded a total amount of NIS 400,000.
- With the non-profit organization Shavot, during the Week of the Israeli Girl, the Bank provided practical tools for leadership and financial education to thousands of girls.
- Miss Fix the Universe – A joint initiative with the Israel Women's Network aimed at providing appreciation and financial support for women's ventures working towards a better society. Within this initiative, the Bank gave grants of NIS 350,000 to social ventures by women, operating in Israel within or in collaboration with non-profits or public benefit companies, to strengthen and empower girls and young women through education on equality, financial literacy, excellence in their field, and support for at-risk adolescent girls.

Financial growth

Within the commitment of the Bank over many years to promoting society and economic growth in Israel and taking action to reduce inequalities, in 2018 the Bank inaugurated the Financial Growth Center. The center serves as a hub for learning and for acquiring tools for astute financial conduct. Its services are offered to the general public free of charge. The center operates through a website offering advanced digital learning tools, lectures by leading speakers, and interactive learning through games for the whole family. The educational content for the center is developed with the academic guidance of Prof. Zvi Eckstein, dean of the school of economics at Reichman University. The content was created based on research and public opinion surveys on economic subjects, and aligned with significant financial milestones, such as expansion of the family, taking out a mortgage, career change, retirement, and more. The activity of the center is based on collaborations with a range of professionals within and outside the Bank.

After five years of continuous activity, 2023 was a year of momentum and accelerated development of the center's operations, with the launch of the School for Businesses and the development and implementation of tools for guidance and mentoring of small businesses and self-employed people. The center also expanded its activities with target audiences including women, soldiers, families with children, and more.

This year, approximately 1 million people enjoyed the center's activities, participating in lectures on various topics, listening to podcasts, using the website, or receiving guidance.

Financial growth in Arab society: The center has continually worked in the Arab sector, with Arabic-language conferences and lectures for business owners and private customers on a range of financial topics, including support and assistance during the crisis through targeted lectures on maintaining economic resilience, managing a business during wartime, and more.

Volunteering

Over 5,000 volunteers participated in activities dedicated to the community in 2023, reaching a total of 69,000 hours.

Employees donated NIS 526 thousand through the Matan project. The Bank added a donation of NIS 500 thousand to the same causes and organizations.

In view of its many years of commitment to society and the community, the Bank added the concept of impact banking to its vision, reflecting its complete world view: "Committed to growth through impactful, innovative, fair banking for our customers."

8. Appendices

8.1. Statement of profit and loss and balance sheet – multi-period data

Table 8-1: Consolidated statement of profit and loss for the years 2019-2023 – multi-period data

	For the year ended December 31				
	2023	2022	2021	2020	2019
	NIS millions				
Interest income	**32,971**	19,220	11,684	10,260	11,920
Interest expenses	**(16,886)**	(5,753)	(1,917)	(1,463)	(2,601)
Net interest income	**16,085**	13,467	9,767	8,797	9,319
Provision (income) for credit losses	**1,879**	(34)	(1,220)	1,943	1,276
Net interest income after provision for credit losses	**14,206**	13,501	10,987	6,854	8,043
Non-interest income					
Non-interest financing income	**1,267**	581	1,081	1,088	559
Fees	**3,892**	3,705	3,355	3,155	3,240
Other income	**138**	167	189	136	90
Total non-interest income	**5,297**	4,453	4,625	4,379	3,889
Operating and other expenses					
Salaries and related expenses	**4,492**	4,387	4,333	3,836	4,108
Maintenance and depreciation of buildings and equipment	**1,529**	1,441	1,333	1,377	1,334
Other expenses	**2,210**	2,144	2,137	2,288	3,334
Total operating and other expenses	**8,231**	7,972	7,803	7,501	8,776
Profit from continued operations before taxes	**11,272**	9,982	7,809	3,732	3,156
Provision for taxes on profit from continued operations	**3,930**	3,548	2,958	1,590	1,681
Profit from continued operations after taxes	**7,342**	6,434	4,851	2,142	1,475
The Bank's share in profits of equity-basis investees, after taxes	**18**	99	49	10	11
Net profit from continued operations	**7,360**	6,533	4,900	2,152	1,486
Net profit (loss) from a discontinued operation	**-**	-	-	(109)	296

Table 8-1: Consolidated statement of profit and loss for the years 2019-2023 – multi-period data (continued)

	For the year ended December 31				
	2023	2022	2021	2020	2019
	NIS millions				
Net profit					
Before attribution to non-controlling interests	**7,360**	6,533	4,900	2,043	1,782
Loss (profit) attributed to non-controlling interests	**-**	(1)	14	13	17
Attributed to shareholders of the Bank	**7,360**	6,532	4,914	2,056	1,799
Earnings per ordinary share in NIS					
Basic earnings					
Net profit attributed to shareholders of the Bank	**5.50**	4.89	3.68	1.54	1.35
Net profit attributed to shareholders of the Bank from continued operations	**5.50**	4.89	3.68	1.62	1.13
Net profit (loss) attributed to shareholders of the Bank from a discontinued operation	**-**	-	-	(0.08)	0.22
Diluted earnings					
Net profit attributed to shareholders of the Bank	**5.50**	4.89	3.68	1.54	1.35
Net profit attributed to shareholders of the Bank from continued operations	**5.50**	4.89	3.68	1.62	1.13
Net profit (loss) attributed to shareholders of the Bank from a discontinued operation	**-**	-	-	(0.08)	0.22

Table 8-2: Consolidated balance sheet for the years 2019-2023 – multi-period data

	December 31				
	2023	2022	2021	2020	2019
	NIS millions				
Assets					
Cash and deposits with banks	**107,730**	133,424	189,283	138,711	88,122
Securities	**127,122**	107,400	71,105	71,885	59,486
Securities borrowed or purchased under agreements to resell	**4,723**	898	1,253	368	471
Credit to the public	**414,375**	394,262	357,729	307,973	297,647
Allowance for credit losses	**(6,994)**	(5,535)	(5,106)	(6,145)	(4,707)
Net credit to the public	**407,381**	388,727	352,623	301,828	292,940
Credit to governments	**3,175**	2,157	1,969	2,193	1,971
Investments in equity-basis investees	**1,527**	1,198	853	556	192
Buildings and equipment	**3,672**	3,522	3,555	3,319	3,233
Assets in respect of derivative instruments	**25,229**	21,832	12,984	14,890	11,143
Other assets	**5,971**	6,195	5,156	5,852	5,281
Investment constituting a discontinued operation	**-**	-	-	-	849
Total assets	**686,530**	665,353	638,781	539,602	463,688
Liabilities and capital					
Deposits from the public	**554,595**	532,588	525,072	435,217	361,645
Deposits from banks	**9,085**	8,696	11,601	6,591	3,520
Deposits from the government	**2,436**	3,262	752	761	685
Securities lent or sold under agreements to repurchase	**6,279**	13,877	3,426	6	3
Bonds and subordinated notes	**21,800**	26,866	25,582	23,490	26,853
Liabilities in respect of derivative instruments	**24,240**	19,043	14,350	16,804	12,050
Other liabilities	**15,665**	14,518	15,251	16,834	20,711
Liabilities attributed to a discontinued operation	**-**	-	-	-	-
Total liabilities	**634,100**	618,850	596,034	499,703	425,467
Shareholders' equity	**52,430**	46,502	42,735	39,873	38,181
Non-controlling interests	**-**	1	12	26	40
Total capital	**52,430**	46,503	42,747	39,899	38,221
Total liabilities and capital	**686,530**	665,353	638,781	539,602	463,688

8.2. Statement of profit and loss and balance sheet – multi-quarter data

Table 8-3: Quarterly consolidated statement of profit and loss for the years 2022-2023 – multi-quarter data

	2023				2022			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions							
Interest income	**8,325**	**8,502**	**8,622**	**7,522**	6,374	5,139	4,304	3,403
Interest expenses	**(4,578)**	**(4,496)**	**(4,327)**	**(3,485)**	(2,446)	(1,503)	(1,117)	(687)
Net interest income	**3,747**	**4,006**	**4,295**	**4,037**	3,928	3,636	3,187	2,716
Provision (income) for credit losses	**453**	**662**	**579**	**185**	430	45	91	(600)
Net interest income after provision for credit losses	**3,294**	**3,344**	**3,716**	**3,852**	3,498	3,591	3,096	3,316
Non-interest income								
Non-interest financing income (expenses)	**310**	**203**	**414**	**340**	337	115	(19)	148
Fees	**925**	**1,038**	**961**	**968**	929	984	903	889
Other income	**18**	**51**	**55**	**14**	37	18	17	95
Total non-interest income	**1,253**	**1,292**	**1,430**	**1,322**	1,303	1,117	901	1,132
Operating and other expenses								
Salaries and related expenses	**937**	**1,136**	**1,171**	**1,248**	1,082	1,076	1,068	1,161
Maintenance and depreciation of buildings and equipment	**377**	**353**	**443**	**356**	364	382	369	326
Other expenses	**583**	**570**	**567**	**490**	600	514	559	471
Total operating and other expenses	**1,897**	**2,059**	**2,181**	**2,094**	2,046	1,972	1,996	1,958
Profit before taxes	**2,650**	**2,577**	**2,965**	**3,080**	2,755	2,736	2,001	2,490
Provision for taxes on profit	**868**	**917**	**1,056**	**1,089**	1,015	967	704	862
Profit after taxes	**1,782**	**1,660**	**1,909**	**1,991**	1,740	1,769	1,297	1,628
The Bank's share in profits (losses) of equity-basis investees, after taxes	**(21)**	**9**	**13**	**17**	10	16	46	27
Net profit (loss)								
Before attribution to non-controlling interests	**1,761**	**1,669**	**1,922**	**2,008**	1,750	1,785	1,343	1,655
Loss (profit) attributed to non-controlling interests	**-**	**-**	**-**	**-**	-	-	-	(1)
Attributed to shareholders of the Bank	**1,761**	**1,669**	**1,922**	**2,008**	1,750	1,785	1,343	1,654
Earnings per ordinary share in NIS								
Basic earnings (loss)								
Net profit attributed to shareholders of the Bank	**1.32**	**1.25**	**1.44**	**1.50**	1.31	1.34	1.00	1.24
Diluted earnings (loss)								
Net profit attributed to shareholders of the Bank	**1.32**	**1.25**	**1.44**	**1.50**	1.31	1.34	1.00	1.24

Table 8-4: Consolidated balance sheet as at the end of each quarter in the years 2022-2023 – multi-quarter data

	2023			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions			
Assets				
Cash and deposits with banks	**107,730**	**92,131**	**97,082**	**95,918**
Securities	**127,122**	**136,810**	**132,301**	**137,338**
Securities borrowed or purchased under agreements to resell	**4,723**	**886**	**1,071**	**2,017**
Credit to the public	**414,375**	**411,061**	**406,223**	**400,007**
Allowance for credit losses	**(6,994)**	**(6,690)**	**(6,087)**	**(5,608)**
Net credit to the public	**407,381**	**404,371**	**400,136**	**394,399**
Credit to governments	**3,175**	**3,370**	**3,053**	**2,599**
Investments in equity-basis investees	**1,527**	**1,270**	**1,266**	**1,245**
Buildings and equipment	**3,672**	**3,474**	**3,462**	**3,532**
Assets in respect of derivative instruments	**25,229**	**27,963**	**24,849**	**23,705**
Other assets	**5,971**	**5,713**	**5,564**	**5,912**
Total assets	**686,530**	**675,988**	**668,784**	**666,665**
Liabilities and capital				
Deposits from the public	**554,595**	**532,756**	**529,703**	**528,897**
Deposits from banks	**9,085**	**8,953**	**10,793**	**9,284**
Deposits from the government	**2,436**	**2,932**	**2,861**	**2,734**
Securities lent or sold under agreements to repurchase	**6,279**	**16,924**	**13,400**	**15,009**
Bonds and subordinated notes	**21,800**	**23,810**	**24,804**	**26,417**
Liabilities in respect of derivative instruments	**24,240**	**24,706**	**21,944**	**21,045**
Other liabilities	**15,665**	**15,655**	**15,936**	**15,163**
Total liabilities	**634,100**	**625,736**	**619,441**	**618,549**
Shareholders' equity	**52,430**	**50,252**	**49,342**	**48,115**
Non-controlling interests	**-**	**-**	**1**	**1**
Total capital	**52,430**	**50,252**	**49,343**	**48,116**
Total liabilities and capital	**686,530**	**675,988**	**668,784**	**666,665**

Table 8-4: Consolidated balance sheet as at the end of each quarter in the years 2022-2023 – multi-quarter data (continued)

	2022			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions			
Assets				
Cash and deposits with banks	133,424	145,423	162,579	178,317
Securities	107,400	90,078	81,506	68,604
Securities borrowed or purchased under agreements to resell	898	1,028	1,181	658
Credit to the public	394,262	386,775	377,085	369,293
Allowance for credit losses	(5,535)	(5,193)	(5,109)	(5,036)
Net credit to the public	388,727	381,582	371,976	364,257
Credit to governments	2,157	1,910	2,057	1,911
Investments in equity-basis investees	1,198	1,188	1,155	966
Buildings and equipment	3,522	3,439	3,457	3,492
Assets in respect of derivative instruments	21,832	28,481	22,356	13,874
Other assets	6,195	5,207	5,331	5,546
Total assets	665,353	658,336	651,598	637,625
Liabilities and capital				
Deposits from the public	532,588	527,699	529,508	519,776
Deposits from banks	8,696	9,779	9,045	11,370
Deposits from the government	3,262	486	1,116	605
Securities lent or sold under agreements to repurchase	13,877	9,081	6,018	6,432
Bonds and subordinated notes	26,866	26,263	27,334	27,411
Liabilities in respect of derivative instruments	19,043	26,026	19,711	14,385
Other liabilities	14,518	13,933	14,648	14,415
Total liabilities	618,850	613,267	607,380	594,394
Shareholders' equity	46,502	45,068	44,217	43,230
Non-controlling interests	1	1	1	1
Total capital	46,503	45,069	44,218	43,231
Total liabilities and capital	665,353	658,336	651,598	637,625

8.3. Rates of interest income and expenses

Table 8-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1]

	For the year ended December 31								
	2023			2022			2021		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	NIS millions		%	NIS millions		%	NIS millions		%
A. Average balances and interest rates									
Interest-bearing assets									
Credit to the public[3]:									
In Israel	**369,673**	**23,052**	**6.24%**	345,441	15,293	4.43%	300,147	10,459	3.48%
Outside Israel	**20,393**	**1,657**	**8.13%**	17,358	909	5.24%	14,963	591	3.95%
Total	**390,066**	**[4]24,709**	**6.33%**	362,799	[4]16,202	4.47%	315,110	[4]11,050	3.51%
Credit to governments:									
In Israel	**2,787**	**153**	**5.49%**	1,952	91	4.66%	2,074	45	2.17%
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**2,787**	**153**	**5.49%**	1,952	91	4.66%	2,074	45	2.17%
Deposits with banks:									
In Israel	**7,116**	**286**	**4.02%**	4,871	97	1.99%	3,999	45	1.13%
Outside Israel	**223**	**3**	**1.35%**	163	2	1.23%	127	1	0.79%
Total	**7,339**	**289**	**3.94%**	5,034	99	1.97%	4,126	46	1.11%
Deposits with central banks:									
In Israel	**62,751**	**2,790**	**4.45%**	119,933	1,319	1.10%	131,664	132	0.10%
Outside Israel	**8,000**	**393**	**4.91%**	9,299	146	1.57%	10,086	15	0.15%
Total	**70,751**	**3,183**	**4.50%**	129,232	1,465	1.13%	141,750	147	0.10%
Securities borrowed or purchased under agreements to resell:									
In Israel	**1,787**	**82**	**4.59%**	1,313	16	1.22%	1,011	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**1,787**	**82**	**4.59%**	1,313	16	1.22%	1,011	-	-

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Before deduction of the average balance sheet balance of the allowance for credit losses, including debts that do not accrue interest income.
(4) Fees in the amount of NIS 421 million were included in interest income in the year ended December 31, 2023 (December 31, 2022: NIS 595 million).

Table 8-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the year ended December 31								
	2023			2022			2021		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	NIS millions		%	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)									
Interest-bearing assets (continued)									
Bonds held to maturity and available for sale[3]:									
In Israel	**108,526**	**3,520**	**3.24%**	68,901	1,072	1.56%	56,996	347	0.61%
Outside Israel	**4,052**	**208**	**5.13%**	3,635	77	2.12%	3,085	28	0.91%
Total	**112,578**	**3,728**	**3.31%**	72,536	1,149	1.58%	60,081	375	0.62%
Bonds held for trading[3]:									
In Israel	**18,271**	**826**	**4.52%**	8,164	198	2.43%	4,058	21	0.52%
Outside Israel	**-**	**-**	**-**	1	-	-	2	-	-
Total	**18,271**	**826**	**4.52%**	8,165	198	2.42%	4,060	21	0.52%
Other assets:									
In Israel	**840**	**1**	**0.12%**	571	-	-	488	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**840**	**1**	**0.12%**	571	-	-	488	-	-
Total interest-bearing assets	**604,419**	**32,971**	**5.45%**	581,602	19,220	3.30%	528,700	11,684	2.21%
Non-interest-bearing debtors in respect of credit cards	**7,649**	**-**	**-**	7,374	-	-	6,851	-	-
Other non-interest-bearing assets[4]	**61,605**	**-**	**-**	56,166	-	-	44,139	-	-
Total assets	**673,673**	**-**	**-**	645,142	-	-	579,690	-	-
Total interest-bearing assets attributed to activities outside Israel	**32,668**	**2,261**	**6.92%**	30,456	1,134	3.72%	28,263	635	2.25%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS (2,337) million for the year ended December 31, 2023 (December 31, 2022: NIS (1,641) million; 2021: NIS 296 million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.
(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

Table 8-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the year ended December 31								
	2023			2022			2021		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)									
Interest-bearing liabilities									
Deposits from the public:									
In Israel	**343,979**	**13,562**	**3.94%**	276,320	3,716	1.34%	246,433	880	0.36%
On demand	**125,520**	**4,524**	**3.60%**	136,790	1,151	0.84%	125,980	33	0.03%
Fixed term	**218,459**	**9,038**	**4.14%**	139,530	2,565	1.84%	120,453	847	0.70%
Outside Israel	**25,188**	**1,186**	**4.71%**	20,003	309	1.54%	17,593	103	0.59%
On demand	**7,210**	**327**	**4.54%**	6,872	92	1.34%	7,650	27	0.35%
Fixed term	**17,978**	**859**	**4.78%**	13,131	217	1.65%	9,943	76	0.76%
Total	**369,167**	**14,748**	**3.99%**	296,323	4,025	1.36%	264,026	983	0.37%
Deposits from the government:									
In Israel	**2,624**	**150**	**5.72%**	796	23	2.89%	555	4	0.72%
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**2,624**	**150**	**5.72%**	796	23	2.89%	555	4	0.72%
Deposits from central banks:									
In Israel	**4,146**	**(1)**	**(0.02%)**	4,166	-	-	3,503	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**4,146**	**(1)**	**(0.02%)**	4,166	-	-	3,503	-	-
Deposits from banks:									
In Israel	**5,478**	**219**	**4.00%**	5,415	21	0.39%	4,728	7	0.15%
Outside Israel	**23**	**-**	**0.00%**	104	1	0.96%	136	3	2.21%
Total	**5,501**	**219**	**3.98%**	5,519	22	0.40%	4,864	10	0.21%
Securities lent or sold under agreements to repurchase:									
In Israel	**14,603**	**761**	**5.21%**	7,488	187	2.50%	1,026	4	0.39%
Outside Israel	**-**	**-**	**-**	1	-	-	5	-	-
Total	**14,603**	**761**	**5.21%**	7,489	187	2.50%	1,031	4	0.39%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 8-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the year ended December 31								
	2023			2022			2021		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)									
Interest-bearing liabilities (continued)									
Bonds:									
In Israel	**25,098**	**980**	**3.90%**	26,765	1,483	5.54%	21,464	908	4.23%
Outside Israel	**-**	**-**	**-**	-	-	-	3	-	-
Total	**25,098**	**980**	**3.90%**	26,765	1,483	5.54%	21,467	908	4.23%
Other liabilities:									
In Israel	**966**	**29**	**3.00%**	298	13	4.36%	775	8	1.03%
Outside Israel	**-**	**-**	**-**	-	-	-	19	-	-
Total	**966**	**29**	**3.00%**	298	13	4.36%	794	8	1.01%
Total interest-bearing liabilities	**422,105**	**16,886**	**4.00%**	341,356	5,753	1.69%	296,240	1,917	0.65%
Non-interest-bearing deposits from the public	**160,303**	**-**	**-**	225,676	-	-	214,139	-	-
Non-interest-bearing creditors in respect of credit cards	**4,764**	**-**	**-**	4,636	-	-	7,512	-	-
Other non-interest-bearing liabilities[3]	**35,167**	**-**	**-**	27,557	-	-	20,441	-	-
Total liabilities	**622,339**	**-**	**-**	599,225	-	-	538,332		-
Total capital means	**51,334**	**-**	**-**	45,917	-	-	41,358	-	-
Total liabilities and capital means	**673,673**	**-**	**-**	645,142	-	-	579,690	-	-
Interest spread	**-**	**-**	**1.45%**	-	-	1.61%	-	-	1.56%
Net return on interest-bearing assets[4]	**-**	**-**	**-**	-	-	-	-	-	0.00%
In Israel	**571,751**	**15,010**	**2.63%**	551,146	12,643	2.29%	500,437	9,238	1.85%
Outside Israel	**32,668**	**1,075**	**3.29%**	30,456	824	2.71%	28,263	529	1.87%
Total	**604,419**	**16,085**	**2.66%**	581,602	13,467	2.32%	528,700	9,767	1.85%
Total interest-bearing liabilities attributed to activities outside Israel	**25,211**	**1,186**	**4.70%**	20,108	310	1.54%	17,756	106	0.60%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Includes derivative instruments.
(4) Net return – net interest income divided by total interest-bearing assets.

Table 8-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the year ended December 31								
	2023			2022			2021		
	Average balance[2]	Interest income (expenses)	Rate of income/ (expense)	Average balance[2]	Interest income (expenses)	Rate of income/ (expense)	Average balance[2]	Interest income (expenses)	Rate of income/ (expense)
	NIS millions		%	NIS millions		%	NIS millions		%
B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel									
Israeli currency unlinked									
Total interest-bearing assets	**433,464**	**23,958**	**5.53%**	432,954	12,380	2.86%	402,645	7,750	1.92%
Total interest-bearing liabilities	**269,860**	**(9,501)**	**(3.52%)**	226,301	(2,211)	(0.98%)	194,148	(354)	(0.18%)
Interest spread	**-**	**-**	**2.01%**	-	-	1.88%	-	-	1.74%
Israeli currency CPI-linked									
Total interest-bearing assets	**61,102**	**3,413**	**5.59%**	59,014	4,340	7.35%	52,923	2,658	5.02%
Total interest-bearing liabilities	**28,910**	**(1,258)**	**(4.35%)**	31,469	(1,957)	(6.22%)	32,210	(1,225)	(3.80%)
Interest spread	**-**	**-**	**1.24%**	-	-	1.13%	-	-	1.22%
Foreign currency (includes Israeli currency linked to foreign currency)									
Total interest-bearing assets	**77,185**	**3,339**	**4.33%**	59,178	1,366	2.31%	44,869	641	1.43%
Total interest-bearing liabilities	**98,124**	**(4,941)**	**(5.04%)**	63,478	(1,275)	(2.01%)	52,126	(232)	(0.45%)
Interest spread	**-**	**-**	**(0.71%)**	-	-	0.30%	-	-	0.98%
Total activity in Israel									
Total interest-bearing assets	**571,751**	**30,710**	**5.37%**	551,146	18,086	3.28%	500,437	11,049	2.21%
Total interest-bearing liabilities	**396,894**	**(15,700)**	**(3.96%)**	321,248	(5,443)	(1.69%)	278,484	(1,811)	(0.65%)
Interest spread	**-**	**-**	**1.41%**	-	-	1.59%	-	-	1.56%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 8-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	Year ended December 31, 2023, versus year ended December 31, 2022			Year ended December 31, 2022, versus year ended December 31, 2021		
	Increase (decrease) due to change[2]		Net change	Increase (decrease) due to change[2]		Net change
	Quantity	Price		Quantity	Price	
	NIS millions					
C. Analysis of changes in interest income and expenses						
Interest-bearing assets						
Credit to the public:						
In Israel	**1,511**	**6,248**	**7,759**	2,005	2,829	4,834
Outside Israel	**247**	**501**	**748**	125	193	318
Total	**1,758**	**6,749**	**8,507**	2,130	3,022	5,152
Other interest-bearing assets:						
In Israel	**(137)**	**5,002**	**4,865**	74	2,129	2,203
Outside Israel	**(40)**	**419**	**379**	(3)	184	181
Total	**(177)**	**5,421**	**5,244**	71	2,313	2,384
Total interest income	**1,581**	**12,170**	**13,751**	2,201	5,335	7,536
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**2,668**	**7,178**	**9,846**	402	2,434	2,836
Outside Israel	**244**	**633**	**877**	37	169	206
Total	**2,912**	**7,811**	**10,723**	439	2,603	3,042
Other interest-bearing liabilities:						
In Israel	**323**	**88**	**411**	495	301	796
Outside Israel	**-**	**(1)**	**(1)**	(1)	(1)	(2)
Total	**323**	**87**	**410**	494	300	794
Total interest expenses	**3,235**	**7,898**	**11,133**	933	2,903	3,836
Total interest income less interest expenses	**(1,654)**	**4,272**	**2,618**	1,268	2,432	3,700

(1) Data presented after the effect of hedging derivative instruments.
(2) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

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Standard 9 Financial statements

The audited annual financial statements, with the attached Auditors' Review, are enclosed and constitute an integral part of this report.

Standard 10C Use of the consideration of securities

The consideration for the issuance of Subordinated Notes (Series K) in a total amount of approximately NIS 0.4 billion of December 2023 is being used by the Bank for its routine operations.

General note on Standards 11, 12, and 13

Standards 11, 12, and 13 were applied with regard to investments in subsidiaries and equity-basis investees with business activity, provided that they meet one or more of the following criteria:

1. The share of the Bank in the balance sheet value of the investment in the investee company (concatenated) is greater than 0.5% of the shareholders' equity in the financial statements of the Bank.
2. The company constitutes a banking corporation.

Standard 11 List of investments in subsidiaries and related companies as at the balance sheet date

A. In shares and convertible securities

	Share type						Holding rate			
	Share	Par value per share	Currency	Number of shares	Total par value	Balance sheet value (in NIS M)	In securities	In capital	In voting	In authority to appoint directors
Company										
Opaz Ltd.	Ordinary shares	0.01	NIS	1,000,770	10,007.70	1,646	100%	100%	100%	100%
Diur B.P. Ltd.						261	-	100%	100%	100%
Hapoalim (Switzerland) Ltd.	Founding shares	100.00	CHF	650,000	65,000,000.00	255	100%	100%	100%	100%
Hapoalim Nechasim (Menayot) Ltd.						808	-	100%	100%	100%
Amal Holdings A.D. Ltd.*						269	-	17.9%	17.9%	17.9%
Poalim Equity Ltd.	Ordinary shares	0.01	NIS	3	0.03	2,813	0%	100%	100%	100%
Peilim Portfolio Management Company Ltd.	Ordinary shares	1.00	NIS	50,000	50,000.00	282	100%	100%	100%	100%
Peilim Portfolio Management Company Ltd.	Ordinary shares 0.001	0.00	NIS	5,000	5.00	282	100%	100%	100%	100%
Sure-Ha International Ltd.	Ordinary shares	0.40	USD	1	0.40	379	0%	100%	100%	100%

* The investment in the company was executed on December 31, 2023.

Standard 11 List of investments in subsidiaries and related companies as at the balance sheet date (continued)

B. In bonds and capital notes

	Linkage terms	Balance sheet balance (in NIS millions)	Interest rate (in %)	Final maturity year
Company				
Zohar Hashemesh Lehashkaot Ltd.	Unlinked	850	-	No maturity date
Poalim Sahar Ltd.	Unlinked	250	-	No maturity date
Poalim Equity & Investments - Holdings Ltd.	Unlinked	328	-	2023
Poalim Equity & Investments - Holdings Ltd.	Unlinked	350	-	2025
Poalim Equity & Investments - Holdings Ltd.	Unlinked	400	-	2027
Poalim Equity & Investments - Holdings Ltd.	Unlinked	200	-	2028
Poalim Equity & Investments - Holdings Ltd.	Unlinked	600	-	2028

C. Balance of loans as at December 31, 2023

	Balance of loans as at Dec. 31, 2023	Interest rate of unlinked loans	Interest rate of foreign-currency loans	Interest rate of CPI-linked loans	Interest rate of foreign-currency linked loans	Final maturity date
	NIS millions	%				
Company						
Hapoalim (Switzerland) Ltd.	**104**				5.18	June 28, 2024

D. List of inactive companies

Diur B.P. Properties (1993) Ltd.	In voluntary liquidation
Hapoalim (Latin America) S.A.	In voluntary liquidation
Hevra Lepitouh Ashkelon Barnea Ltd.	
The Rest Village Ashkelon Ltd.	In voluntary liquidation
Teus Trust Company Ltd.	In voluntary liquidation
Hevrat Odar Ltd.	
Hanyon Allenby 115 Tel-Aviv Ltd.	In voluntary liquidation
Chatzron Hevra Lehashkaot Ltd.	In voluntary liquidation
Matai Ramatim Ltd.	
Poalim (Luxembourg) S.A.	In voluntary liquidation
Poalim Ventures I Ltd.	In voluntary liquidation
Karkaot Beguosim 7123 7124 7128 Ltd.	

Standard 12 Changes in the Bank's investments in subsidiaries and equity-basis investees during the reported period

	Share type			Date of change	Nature of change	Total par value	Cost (in NIS (millions
	Share	Par value per share	Currency				
Company							
Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.				November 19, 2023	Merger		
Bitzur Ltd.				November 19, 2023	Merger		
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	Ordinary	0.1	TRY	September 13, 2023	Sale	337,292,350	
Hapoalim International (N.V.)			USD	September 5, 2023	Return of investment		13
Hapoalim American Israeli Ltd.				November 19, 2023	Merger		
Hapoalim Hanpakot Ltd.				September 26, 2023	Merger		
Amal Holdings A.D. Ltd.	Ordinary	0.0001	NIS	December 31, 2023	Investment	252	269
Poalim Equity & Investments - Holdings Ltd.			NIS	September 30, 2023	Investment		200
Poalim Equity & Investments - Holdings Ltd.			NIS	December 25, 2023	Investment		600
Pekaot Poalim Ltd.				November 19, 2023	Merger		
Continental Poalim Ltd.				November 19, 2023	Merger		
Tmura Hevra Finansit Ltd.				November 19, 2023	Merger		
Teuda Hevra Finansit Ltd.				November 19, 2023	Merger		
Tarshish Hapoalim Holdings and Investments Ltd.				November 19, 2023	Merger		

In June 2023, the Bank entered into an agreement for the merger with and into the Bank of several subsidiaries under its full control and ownership (or nearly full, other than the holding of a few shares at a negligible rate), without consideration (other than negligible amounts to be held in trust for the few shares of some of the companies not held by the Bank). The merger was completed on November 19, 2023, and is in effect as of June 30, 2023. In June 2023, the Bank also entered into an agreement for the merger with and into the Bank, without consideration, of Hapoalim Hanpakot, a wholly owned subsidiary that served as its funding arm for debt instruments. This merger was completed on September 26, 2023.

Until September 2023, the Bank Group held 100% of the share capital of Bank Pozitif, in Turkey, which is engaged in corporate banking. On March 30, 2023, the Bank entered into an agreement for the sale of its holding in Bank Pozitif, for a consideration primarily consisting of repayment of credit granted to Bank Pozitif at the time of completion of the transaction. On September 13, 2023, the transaction was completed and the holdings of the Bank in Bank Pozitif were transferred to the buyer, in consideration for repayment of the credit granted to Bank Pozitif.

Standard 13 Income of subsidiaries and related companies and the Bank's income from such companies as at the balance sheet date*

	Profit (loss) reported by the company		Bank income		
	Profit (loss) reported by the company	Accumulated other comprehensive income (loss)	Interest	Management fees	Dividends
	NIS millions				
Company					
Opaz Ltd.	55	-	-	-	-
Diur B.P. Ltd.**	30	-	-	-	-
Hapoalim (Switzerland) Ltd.	(35)	-	2	-	-
Hapoalim Nechasim (Menayot) Ltd.	29	-	-	-	-
Poalim Equity Ltd.	100	-	-	-	-
Peilim Portfolio Management Company Ltd.	22	-	-	-	-
Sure-Ha International Ltd.	36	-	-	-	-

* Companies that had no profits (losses) during the accounting period, and from which the Bank derived no income during the accounting period, were not included in this list.
Subsidiaries overseas – in local currency translated based on the exchange rate as at December 31, 2023.

** Many years ago, Diur B.P. sold land that had been under its ownership. Pursuant to the agreements with some of the buyers, the company is entitled to some of the proceeds upon disposal of the properties by the buyers. Over the years, the buyers have sold or disposed the properties, following betterment, and the company received and is receiving its share of the proceeds, which are recorded as other income in the financial statements, and constitute its principal income.

Standard 14 List of groups of balances of loans granted as at the date of the report on financial position, if loan granting was one of the corporation's main activities

The list is included in Note 29.D to the Financial Statements.

Standard 20 Trading on the stock exchange – securities listed for trading – dates and reasons for halt of trading

Listing

Following the completion of the merger of Hapoalim Hanpakot Ltd. into the Bank on September 26, 2023, bonds (Series 202 and 203) and subordinated notes (Series H, I, and J) of the Bank were issued to holders of the securities of Hapoalim Hanpakot and listed for trading on that date, replacing the bonds and subordinated notes of Hapoalim Hanpakot. For further information, see the reports of September 21 and 26, 2023.
On December 7, 2023, Subordinated Notes (Series K) of par value NIS 384,150,000 were issued and listed on the stock exchange.

Halts of trading

On November 27, 2023, during trading, the stock exchange halted trading in Bonds (Series 203) (security no. 1199868) due to a technical error of the stock exchange in calculating the rate of partial redemption of the security. Trading in Bonds (Series 203) was renewed on the following day. See the report of November 27, 2023.

Standard 21 Remuneration of interested parties and senior officers

Remuneration paid to directors (with the exception of the Chairman of the Board) in 2023 in respect of their service, not exceeding commonly accepted levels, paid pursuant to Regulations 4 and 5 of the Companies Regulations (Rules Concerning Remuneration and Expenses for External Directors), 2000, amounted to a total of approximately NIS 6,354 thousand (not including VAT). For details regarding remuneration of the Chairman of the Board, see Section 6.5 in the Corporate Governance Report.

Standard 21A Control of the corporation

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel, that allowed the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core; since then, the Bank does not have a shareholder who is a controlling party. For further details, see Section 6.6 in the Corporate Governance Report.

Standard 22 Transactions with controlling parties

Beginning November 22, 2018, the Bank is a banking corporation without a controlling core, and the Bank does not have a controlling shareholder according to the directives of the Companies Law or the Securities Law. For details regarding the criteria established by the Audit Committee with regard to the approval and reporting of interested-party transactions of the Bank, see Section 6.7 in the Corporate Governance Report and Note 33 to the Financial Statements.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position[1]

A. Holdings of Bank shares by interested parties

	Corporation number	Par value shares in NIS[2]	Rate of holdings in capital	Rate of holdings in voting[3]	Rate of holdings in capital after dilution	Rate of holdings in voting after dilution
Interested party						
Clal Insurance Enterprises Holdings Ltd. – nostro	520036120	2,504,559.00	0.19	0.19	0.19	0.19
Clal Insurance Enterprises Holdings Ltd. – provident funds	520036120	89,336,979.00	6.68	6.68	6.68	6.68
The Phoenix Holdings Ltd. – nostro	520017450	2,561,577.00	0.19	0.19	0.19	0.19
The Phoenix Holdings Ltd. – insurance	520017450	155,183.00	0.01	0.01	0.01	0.01
The Phoenix Holdings Ltd. – provident funds	520017450	57,174,547.66	4.28	4.28	4.28	4.28
The Phoenix Investment House – mutual funds	520041989	38,556,723.21	2.88	2.88	2.88	2.88
The Phoenix Investment House – market making	520041989	-1,437,802.78	0.00	0.00	0.00	0.00
Altshuler-Shaham Ltd. – fund management	511446551	2,959,315.00	0.22	0.22	0.22	0.22
Altshuler-Shaham Ltd. – provident funds and pensions	511446551	65,931,902.20	4.93	4.93	4.93	4.93
Altshuler Shaham Yanshuf Gidur Ltd. (General Partner)	514060904	590,000.00	0.04	0.04	0.04	0.04
Altshuler Shaham Portfolio A Gidur Ltd. (General Partner)	515229086	40,000.00	0.00	0.00	0.00	0.00
Harel Insurance and Financial Services Investments Ltd. – nostro	520033986	-721,887.00	0.00	0.00	0.00	0.00
Harel Insurance and Financial Services Investments Ltd. – mutual funds	520033986	25,226,238.00	1.89	1.89	1.89	1.89
Harel Insurance and Financial Services Investments Ltd. – provident funds	520033986	61,514,655.00	4.60	4.60	4.60	4.60
Meitav Investment House Ltd. – mutual funds	520043795	53,812,700.00	4.02	4.02	4.02	4.02
Meitav Investment House Ltd. – provident funds	520043795	24,480,704.00	1.83	1.83	1.83	1.83

(1) The data are as at January 31, 2024.
(2) Par value NIS 1.0 for one ordinary share.
(3) The Bank holds 109,893 shares that constitute dormant shares.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position[1] (continued)

A. Holdings of Bank shares by interested parties (continued)

Holdings of bonds and convertible securities of the Bank by interested parties

	Corporation number	Security	Notional value	Percentage of total series held
Name of interested party				
Clal Insurance Enterprises Holdings – nostro	520036120	Poalim Bonds 200	6,617,637.23	0.25
		Poalim Bonds 201	6,466,509.00	0.36
		Poalim Bonds 203	36,419,573.72	1.26
		Subordinated Notes K	30,000.00	0.01
Clal Insurance Enterprises Holdings – provident funds	520036120	Poalim Bonds 100	319,632,995.93	12.12
		Poalim Bonds 200	464,881,706.51	17.62
		Poalim Bonds 201	250,603,438.60	13.92
		Poalim Bonds 203	139,406,223.08	4.82
		Subordinated Notes E	146,411,462.00	20.92
		Subordinated Notes G	99,350,000.00	10.46
		Subordinated Notes I	126,900,000.00	12.06
		Subordinated Notes J	67,000,000.00	6.34
Clal Insurance Enterprises Holdings – profit participation	520036120	Poalim Bonds 203	901,110.72	0.03
The Phoenix Holdings Ltd. – nostro	520017450	Poalim Bonds 100	1,037,361.16	0.04
		Poalim Bonds 200	8,654,078.94	0.33
		Poalim Bonds 201	2,361,949.20	0.13
		Poalim Bonds 202	71,030.72	0.01
		Poalim Bonds 203	8,838,414.40	0.31
		Subordinated Notes E	5,250,000.00	0.75
		Subordinated Notes F	10,420,000.00	2.62
		Subordinated Notes G	4,982,129.00	0.52
		Subordinated Notes I	11,046,067.00	1.05
		Subordinated Notes J	7,789,871.00	0.74
The Phoenix Holdings Ltd. – insurance	520017450	Poalim Bonds 100	4,022,666.67	0.15
		Poalim Bonds 201	4,494,600.00	0.25
		Poalim Bonds 203	3,952,451.29	0.14
The Phoenix Holdings Ltd. – provident funds	520017450	Poalim Bonds 100	160,551,985.16	6.09
		Poalim Bonds 101	32,465,318.00	2.69
		Poalim Bonds 200	117,085,386.17	4.44
		Poalim Bonds 201	151,601,369.50	8.42
		Poalim Bonds 202	22,044,276.79	1.98
		Poalim Bonds 203	247,231,730.67	8.56
		Subordinated Notes E	37,500,000.00	5.36
		Subordinated Notes F	65,463,304.00	16.46
		Subordinated Notes G	28,600,000.00	3.01
		Subordinated Notes I	51,450,000.00	4.89
		Subordinated Notes J	101,438,954.00	9.60

(1) The data are as at January 31, 2024.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position[1] (continued)

A. Holdings of Bank shares by interested parties (continued)

Holdings of bonds and convertible securities of the Bank by interested parties (continued)

	Corporation number	Security	Notional value	Percentage of total series held
Name of interested party				
The Phoenix Investment House – nostro	520041989	Subordinated Notes G	1,250,000.00	0.13
The Phoenix Investment House – mutual funds	520041989	Poalim Bonds 100	135,517,172.71	5.14
		Poalim Bonds 101	85,997,338.69	7.13
		Poalim Bonds 200	155,819,401.63	5.91
		Poalim Bonds 201	74,637,185.63	4.15
		Poalim Bonds 202	45,578,931.82	4.10
		Poalim Bonds 203	163,383,216.44	5.65
		Subordinated Notes E	6,099,385.00	0.87
		Subordinated Notes G	640,400.00	0.07
		Subordinated Notes I	8,256,670.00	0.78
		Subordinated Notes J	8,839,970.00	0.84
		Subordinated Notes K	5,600,000.00	1.46
The Phoenix Investment House – market making	520041989	Poalim Bonds 100	26,587.03	0.00
		Poalim Bonds 101	3,236.31	0.00
		Poalim Bonds 200	28,055.57	0.00
		Poalim Bonds 201	19,140.07	0.00
		Poalim Bonds 202	11,843.94	0.00
		Poalim Bonds 203	30,746.69	0.00
		Subordinated Notes E	55,439.00	0.01
		Subordinated Notes G	240,928.00	0.03
		Subordinated Notes I	33,315.00	0.00
		Subordinated Notes J	26,499.00	0.00
		Subordinated Notes K	31,007.00	0.01
Altshuler-Shaham Ltd. – fund management	511446551	Poalim Bonds 100	43,940,654.60	1.67
		Poalim Bonds 101	5,000,000.00	0.41
		Poalim Bonds 200	9,576,789.22	0.36
		Poalim Bonds 202	26,281,953.58	2.36
		Poalim Bonds 203	111,479,098.13	3.86
Altshuler-Shaham Ltd. – provident funds and pensions	511446551	Poalim Bonds 200	400,720,210.60	15.19
		Poalim Bonds 201	151,029,900.00	8.39
		Poalim Bonds 202	78,595,302.61	7.07
		Poalim Bonds 203	55,303,020.22	1.91
Altshuler-Shaham Ltd. – Netz	515007938	Poalim Bonds 203	43,543.55	0.00
Altshuler Shaham Portfolio A Gidur Ltd. (General Partner)	515229086	Subordinated Notes K	500,000.00	0.13

(1) The data are as at January 31, 2024.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position[1] (continued)

A. Holdings of Bank shares by interested parties (continued)

Holdings of bonds and convertible securities of the Bank by interested parties (continued)

Name of interested party	Corporation number	Security	Notional value	Percentage of total series held
Harel Insurance and Financial Services Investments Ltd. – nostro	520033986	Poalim Bonds 100	1,170,393.18	0.04
		Poalim Bonds 101	-22,456.00	0.00
		Poalim Bonds 200	7,917,409.75	0.30
		Poalim Bonds 201	1,797,763.50	0.10
		Poalim Bonds 202	165,565.90	0.01
		Poalim Bonds 203	13,429,782.27	0.46
		Subordinated Notes E	1,100,000.00	0.16
		Subordinated Notes F	30,000,000.00	7.54
		Subordinated Notes G	19,900,000.00	2.09
		Subordinated Notes I	3,300,000.00	0.31
		Subordinated Notes J	23,750,000.00	2.25
Harel Insurance and Financial Services Investments Ltd. – mutual funds	520033986	Poalim Bonds 100	71,822,071.91	2.72
		Poalim Bonds 101	120,588,205.00	10.00
		Poalim Bonds 200	79,846,893.04	3.03
		Poalim Bonds 201	39,911,909.40	2.22
		Poalim Bonds 202	30,805,306.20	2.77
		Poalim Bonds 203	94,630,730.77	3.28
		Subordinated Notes E	45,697,147.00	6.53
		Subordinated Notes F	11,904,068.00	2.99
		Subordinated Notes G	31,189,734.00	3.28
		Subordinated Notes I	79,216,975.00	7.53
		Subordinated Notes J	60,326,002.00	5.71
		Subordinated Notes K	8,460,228.00	2.20
Harel Insurance and Financial Services Investments Ltd. – provident funds	520033986	Poalim Bonds 202	376,190.34	0.03
		Poalim Bonds 203	524,034.28	0.02
		Subordinated Notes E	106,300,000.00	15.19
		Subordinated Notes F	67,400,000.00	16.95
		Subordinated Notes G	64,400,000.00	6.78
		Subordinated Notes I	177,650,000.00	16.88
		Subordinated Notes J	192,900,000.00	18.26
		Subordinated Notes K	89,650,000.00	23.34

(1) The data are as at January 31, 2024.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position[1] (continued)

A. Holdings of Bank shares by interested parties (continued)

Holdings of bonds and convertible securities of the Bank by interested parties (continued)

	Corporation number	Security	Notional value	Percentage of total series held
Name of interested party				
Meitav Investment House Ltd. – mutual funds	520043795	Poalim Bonds 100	95,861,128.00	3.63
		Poalim Bonds 101	43,482,113.00	3.61
		Poalim Bonds 200	100,805,603.00	3.82
		Poalim Bonds 201	49,250,238.00	2.74
		Poalim Bonds 202	38,134,311.00	3.43
		Poalim Bonds 203	117,714,337.00	4.07
		Subordinated Notes E	2,489,972.00	0.36
		Subordinated Notes G	447,930.00	0.05
		Subordinated Notes I	22,317,879.00	2.12
		Subordinated Notes J	2,608,588.00	0.25
Meitav Investment House Ltd. – provident funds	520043795	Poalim Bonds 100	37,525,220.00	1.42
		Poalim Bonds 200	173,436,029.00	6.57
		Poalim Bonds 201	163,015,773.00	9.06
		Poalim Bonds 202	16,000.00	0.00
		Poalim Bonds 203	80,979,976.00	2.80
		Subordinated Notes E	10,000,000.00	1.43
		Subordinated Notes F	1,200,000.00	0.30
		Subordinated Notes G	102,852,100.00	10.83
		Subordinated Notes I	45,528,856.00	4.33
		Subordinated Notes J	76,862,881.00	7.28
		Subordinated Notes K	31,319,753.00	8.15

B. Holdings of shares of the Bank by the directors/CEO

	Identification number		Par value shares in NIS[2]	Rate of holdings in capital	Rate of holdings in voting	Rate of holdings in capital after dilution	Rate of holdings in voting after dilution
				%			
Interested party							
Dov Kotler[3]	054010483	Ordinary shares	12,765	-	-	-	-

(1) The data are as at January 31, 2024.
(2) Par value NIS 1.0 for one ordinary share.
(3) Rate of holdings lower than 0.01%.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position[1] (continued)

B. Holdings of shares of the Bank by the directors/CEO (continued)

Holdings of shares by senior officers[4]

	Identification number		Par value shares in NIS[2]	Rate of holdings in capital	Rate of holdings in voting	Rate of holdings in capital after dilution	Rate of holdings in voting after dilution
				%			
Interested party							
Amit Oberkovich[3]	059030015	Ordinary shares	28,480	-	-	-	-
Yael Almog[3]	059284745	Ordinary shares	66,747	-	-	-	-
Eti Ben-Zeev	023571540	Ordinary shares	111,457	0.01	0.01	0.01	0.01
Merav Ben Shushan Cohen	028710143	Ordinary shares	79,539	0.01	0.01	0.01	0.01
Ram Gev[3]	032283046	Ordinary shares	29,301	-	-	-	-
Zeev Hayo	057069676	Ordinary shares	146,810	0.01	0.01	0.01	0.01
Guy Kalif	028761088	Ordinary shares	156,564	0.01	0.01	0.01	0.01
Yadin Antebi	028078525	Ordinary shares	215,728	0.02	0.02	0.02	0.02
Itamar Furman[3]	025359696	Ordinary shares	31,013	-	-	-	-
Dalit Tova Raviv[3]	024149783	Ordinary shares	48,524	-	-	-	-
Amir Bachar[3]	029331113	Ordinary shares	65,213	-	-	-	-
Gilad Bloch[3]	028487296	Ordinary shares	12,122	-	-	-	-
Igal Bareket[3]	024557043	Ordinary shares	2,732	-	-	-	-
Rivka Hadasa Gugig[3]	036164994	Ordinary shares	6,025	-	-	-	-

(1) The data are as at January 31, 2024.
(2) Par value NIS 1.0 for one ordinary share.
(3) Rate of holdings lower than 0.01%.
(4) For details regarding the entitlement of the officers to restricted shares, as part of the remuneration for 2023, and to options, as part of the remuneration for the years from 2024 forward, see Note 22.E to the Financial Statements.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position[1] (continued)

Additional details regarding principal holders:

1 Clal Insurance Enterprises Holdings Ltd.

Clal Insurance Enterprises Holdings Ltd. ("Clal Holdings") is a public company and a reporting corporation without a controlling core, resident in Israel, securities of which are listed on the Tel Aviv Stock Exchange Ltd.

2. The Phoenix Holdings Ltd.

The controlling party of The Phoenix Holdings Ltd. is Belenus Lux S.a.r.l. ("Belenus"), a company incorporated in Luxembourg.

The controlling parties of Belenus are Lewis (Lee) Sachs, Matthew Botein, and CP III Cayman GP Ltd.

The Phoenix Holdings Ltd. (Public Company 520017450) indirectly holds 88.44% of The Phoenix Investment House Ltd. (Private Company 520041989).

3. Altshuler-Shaham Ltd.

The following information is presented as submitted to the Bank by the interested party. Altshuler-Shaham Ltd. ("AS") is an institutional reporting group consisting of Altshuler-Shaham Provident Funds and Pension Ltd. ("AS Provident Funds and Pension") and Altshuler-Shaham Mutual Fund Management Ltd. ("AS Mutual Funds").

The controlling parties of AS are:

Gilad Altshuler, ID no. 057379315, through a 100% holding in Gilad Altshuler Holdings Ltd., which holds 44.07% of the shares of AS. Kalman Shaham, ID no. 000915983, through a 100% holding in Kalman Shaham Holdings Ltd., which holds 44.81% of the shares of AS.

Controlling parties of AS Provident Funds and Pension:

The controlling parties of AS, as stated in the note above, through their holding in AS, which holds 55.66% of AS Provident Funds and Pension directly, and Yair Lowenstein, ID no. 023016678, through a 100% holding in Yair Lowenstein Holdings Ltd.

Controlling parties of AS Mutual Funds:

The controlling parties of AS Mutual Funds are the controlling parties of AS, as noted above, through their holding in AS, which holds 100% of the shares of AS Mutual Funds.

Some of the controlling parties of AS are also the controlling parties of companies that are general partners in several partnerships engaged in hedge-fund management.

(1) The data are as at January 31, 2024.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position[1] (continued)

4. Harel Insurance and Financial Services Investments Ltd.

Harel Insurance and Financial Services Investments Ltd. ("Harel Investments") is a public company, the shares of which are traded on the Tel Aviv Stock Exchange.

The controlling parties of Harel Investments are: Yair Hamburger, ID no. 007048671; Gideon Hamburger, ID no. 007048663; Nurit Manor, ID no. 051171312.

The holding of the controlling parties of Harel Investments is primarily through G.Y.N. Investment Management & Economic Consulting 2017 Limited Partnership (partnership no. 550272587), which is a partnership under the full control and ownership of the controlling parties, which they hold as limited partners through private companies under their full ownership; they also hold the general partner in the partnership G.Y.N. The controlling parties hold approximately 48.17% of the voting rights and issued share capital of Harel Investments. The remaining shares of Harel Investments are held by the public.

5. Meitav Investment House Ltd.

The controlling parties are: (1) Mr. Eli Barkat, ID no. 058368143, through BRM Finances Ltd. The final shareholders of BRM Finances are: Mr. Eli Barkat, ID no. 058368143, who holds 33.3% of the shares (through companies under his control), and who also holds in trust the shares of his brother, Mr. Nir Barkat, ID no. 056092430, constituting 33.3%, and Mr. Yuval Rakavy, ID no. 058142431, who holds 33.3% of the shares (through companies under his control). (2) Mr. Avner Stepak, ID no. 027378058, who holds shares of Meitav Investment House directly and through Maya Holdings (Ye'elim) Ltd. and companies under his control.

(1) The data are as at January 31, 2024.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position[1] (continued)

C. Holdings of subsidiaries in shares of subsidiaries or related companies

	Name of interested party	Company number at Companies Registrar
Name of company held by interested party		
IBI - Management and Underwriting Ltd.	Poalim Equity Ltd.	511819617
BHI – USA Holdings Inc.	Poalim Equity (Euro) Ltd.	352460912
Diur B.P. Ltd.	Opaz Ltd.	510237878
Diur B.P. Properties (1993) Ltd.	Diur B.P. Ltd.	511895773
Hapoalim (Latin America) S.A.	Hapoalim (Cayman) Ltd.	774177877
Hapoalim Nechasim (Menayot) Ltd.	Opaz Ltd.	511391278
Hapoalim Securities U.S.A. Inc.	BHI – USA Holdings Inc.	133732556
Chatzron Hevra Lehashkaot Ltd.	Revadim (Nechasim) Ltd.	510364508
May-Oz Ltd.	Diur B.P. Ltd.	511470999
Amal Holdings A.D. Ltd.	Poalim Equity Ltd.	511295412
Poalim Ofakim Ltd.	Hapoalim Nechasim (Menayot) Ltd.	513624338
Poalim Equity - Financial Applications & Research Ltd.	Poalim Equity Ltd.	511735185
Poalim Equity - Financial Applications & Research Ltd.	Poalim Equity & Investments - Holdings Ltd.	511735185
Poalim Equity (Euro) Ltd.	Poalim Equity Ltd.	512693441
Poalim Equity (Euro) Ltd.	Poalim Equity & Investments - Holdings Ltd.	512693441
Poalim Equity Ltd.	Poalim Equity & Investments - Holdings Ltd.	510820046
Poalim Equity & Investments - Holdings Ltd.	Poalim Equity - Investment House Ltd.	520043290
Poalim Ventures - Fund Management Ltd.	Poalim Equity Ltd.	512433194
Poalim Ventures - Fund Management Ltd.	Poalim Equity & Investments - Holdings Ltd.	512433194
Poalim Ventures 1 Ltd.	Poalim Equity Ltd.	512882317
Poalim Venture Services Israel Ltd.	Hapoalim Nechasim (Menayot) Ltd.	510464795
Poalim Mortgages Insurance Agency (2005) Ltd.	Poalim Ofakim Ltd.	513661025
Pitango 2019 SPV D.N. Limited Partnership	Poalim Equity Ltd.	540287265
Tzadit Ltd.	Revadim (Nechasim) Ltd.	510437494
Sure-Ha International Ltd.	Opaz Ltd.	740000401

(1) The data are as at January 31, 2024.

Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Holding rate		
					In capital	In voting	In authority to appoint directors
Ordinary shares	6,906,621	0.0100	NIS	69,066.2	22%	22%	22%
Ordinary shares	100	1.0000	USD	100.0	100%	100%	100%
Ordinary shares	1,066	0.1000	NIS	106.6	100%	100%	100%
Ordinary shares	100	1.0000	NIS	100.0	100%	100%	100%
Bearer	398,537,083	1.0000	UYU	398,537,083.0	100%	100%	100%
Ordinary shares	100	1.0000	NIS	100.0	100%	100%	100%
Common	10	0.0100	USD	0.1	100%	100%	100%
Ordinary shares	335,670	0.1000	NIS	33,567.0	33%	33%	33%
Ordinary shares	100	1.0000	NIS	100.0	100%	100%	100%
Ordinary shares	2,520,000	0.0001	NIS	252.0	17.9%	17.9%	17.9%
Ordinary shares	50,000	1.0000	NIS	50,000.0	100%	100%	100%
Ordinary shares	1	1.0000	NIS	1.0	1%	1%	1%
Ordinary shares	99	1.0000	NIS	99.0	99%	99%	99%
Ordinary shares	999	1.0000	NIS	999.0	100%	100%	100%
Ordinary shares	1	1.0000	NIS	1.0	0%	0%	0%
Ordinary shares	222,411,690	0.0100	NIS	2,224,116.9	100%	100%	100%
Ordinary shares	4,815,918	1.0000	NIS	4,815,918.0	20%	20%	20%
Ordinary shares	999	1.0000	NIS	999.0	100%	100%	100%
Ordinary shares	1	1.0000	NIS	1.0	0%	0%	0%
Ordinary shares	1,061,330	0.0100	NIS	10,613.3	54%	54%	0%
A ordinary shares	2,698	0.1000	NIS	269.8	100%	100%	100%
Ordinary shares	1,000	1.0000	NIS	1,000.0	100%	100%	100%
No share capital	3,695	1.0000	NIS	3,695.0	37%	37%	37%
Ordinary shares	114,799	0.0001	NIS	11.5	100%	100%	100%
Ordinary shares	4,999,999	0.4000	USD	1,999,999.6	100%	100%	100%

Standard 24A

	Amount in NIS	
	Registered	Issued and paid-up
Share capital		
Ordinary shares of NIS 1	4,000,000,000	1,337,377,111

Dormant shares

The Bank holds 109,893 shares that constitute dormant shares.

The number of shares included in issued share capital, excluding the dormant shares (which confer no rights), is 1,337,267,218.

The shares are registered for trading on the Tel Aviv Stock Exchange.

Standard 24B Registry of shareholders

Book of shareholders – Bank Hapoalim B.M.	Number of shares
Bank Hapoalim Nominee Company Ltd.*	1,337,339,116
Tzitzian Avraham	31,680
Don Maxwell	2,450
Florsheim Mark and Zippora	1,640
Agmon Eliahu	700
Berkner Albert	603
Levy Victoria	544
Mindel Shira Milca	122
Geva Arieh	100
Pentzer Natan	75
Zachs Eran	40
Yehuda Bar-Lev	10
Neuman David	10
Aharon Elias	10
Caleb Victoria	5
IMM C. Investments and Finance Ltd.	2
Zaktzar Ram	1
Erez Tal	1
Kramer Moshe	1
Livnat Raz	1
Total	1,337,377,111

* The quantity of shares at the Nominee Company includes 109,893 dormant shares owned by Bank Hapoalim.

Standard 26 Board of Directors of the Bank[1]

Name	Ruben Krupik
Personal details	Identification number: 013482518 Date of birth: August 22, 1951 Address: Ha'Emek 3, Hod Hasharon Citizenship: Israeli and Argentinian
Membership in committees of the Board of Directors	Chairperson of the Credit Committee, chairperson of the Corporate Governance and Stakeholders Committee, and chairperson of the Strategy and Business Development Committee. Member of the following board committees: the Risk Management and Control Committee, the Information Technology and Technological Innovation Committee, and the Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities.
Is the director an independent director / an external director according to the Companies Law / an external director according to Directive 301?	External director pursuant to Directive 301.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No. Serves as Chairman of the Board of Directors of the Bank as of July 28, 2020 (and served as Acting Chairman of the Board of Directors as of June 9, 2020).
Date of commencement of service as a director of the company	February 18, 2016.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Social Sciences (specialized in Economics and Political Science), Hebrew University of Jerusalem; L.L.B., Tel Aviv University; graduate of business course at the Kellogg Recanati Center, Tel Aviv University. Director at NYK Technologies (family firm, wholly owned). Member of the executive board of the Institute for Medical BioMathematics, Registered Non-Profit Association. Formerly – a director at various companies, primarily in the area of technology, including a director at Recanati Winery Ltd. (2004-2019); an external lecturer at Ben Gurion University (2019-2020); and a business entrepreneur.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with accounting and financial expertise and professional qualification. An expert director. Has banking experience, as defined in Section 25(a) of Directive 301 ("banking experience").
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	David Avner
Personal details	Identification number: 050782184 Date of birth: August 29, 1951 Address: Derech Hasadot 16, Beit Yitzhak Citizenship: Israeli
Membership in committees of the Board of Directors	The Audit Committee, the Risk Management and Control Committee, the Strategy and Business Development Committee, and the Information Technology and Technological Innovation Committee.
Is the director an independent director / an external director according to the Companies Law / an external director according to Directive 301?	External director pursuant to the Companies Law.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No.
Date of commencement of service as a director of the company	September 10, 2019.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Mathematics, in the Computer Science and Philosophy program, Haifa University; M.B.A., Technion Israel Institute of Technology; graduate of information-systems analyst courses, Technion Israel Institute of Technology, External Studies Division. Formerly – chairperson of the board of directors of Cellomat Ltd. (2018-2022), advisor to the board of directors of Starcom Ltd. (2019-2020).
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with accounting and financial expertise and professional qualification. An expert director. Has banking experience. Has knowledge and experience in the areas of information technology and in the area of information security – was directly engaged over the years in the development of information systems; software engineer at Elbit in the development of military systems (3 years); managed a team of software personnel in the information-systems units at the shipping company Zim (3 years); managed information systems at the Strauss Ltd. dairy (7 years); and managed development centers and product divisions at Amdocs (5 years). Has experience with information security, in development and management roles in the area of information systems at large organizations (including Elbit Systems Ltd., Zim Integrated Shipping Services Ltd., Strauss Group Ltd., and Amdocs Ltd.).
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Ronit Abramson-Rokach
Personal details	Identification number: 054121108 Date of birth: August 17, 1957 Address: Shimshon 5, Jerusalem Citizenship: Israeli
Membership in committees of the Board of Directors	Chairperson of the Audit Committee and chairperson of the Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities. Member of the following board committees: the Risk Management and Control Committee, the Corporate Governance and Stakeholders Committee, and the Remuneration Committee.
Is the director an independent director / an external director according to the Companies Law / an external director according to Directive 301?	External director pursuant to the Companies Law.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No.
Date of commencement of service as a director of the company	February 5, 2018.
Education and occupation in last five years, with details of service at corporations as a director	L.L.B., Hebrew University of Jerusalem. Serves as a legal advisor in the areas of companies, securities, and banking. Member of the executive board of the Shiluv Family and Couples Therapy Institute (Registered Non-Profit Association), the Jerusalem Foundation (Registered Non-Profit Association), Beit Berl College (Registered Non-Profit Association), and the general assembly of the Zippori Center for Training and Leadership Ltd. (Public Benefit Company).
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with accounting and financial expertise and professional qualification. An expert director. Has banking experience.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Noam Hanegbi
Personal details	Identification number: 055445647 Date of Birth: July 20, 1958 Address: Trumpeldor 5, Kfar Saba Citizenship: Israeli
Membership in committees of the Board of Directors	Chairperson of the Information Technology and Technological Innovation Committee. Member of the following board committees: the Credit Committee, the Audit Committee, the Corporate Governance and Stakeholders Committee, and the Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities.
Is the director an independent director / an external director according to the Companies Law / an external director according to Directive 301?	External director pursuant to Directive 301, and independent director.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No.
Date of commencement of service as a director of the company	October 6, 2019.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Economics and Computer Science, Bar-Ilan University. CEO of Noam Hanegbi Ltd. (a wholly-owned company). Formerly – Deputy CEO and Head of the Information Systems and Telecommunications Division at Maccabi Health Services (2015-2019), and external technological consultant at Clalit Health Services Ltd. (2019).
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with professional qualification. An expert director. Has banking experience. Has knowledge and experience in the areas of information technology and has experience, expertise, and skill in the area of cybersecurity, mainly from the perspective of policy and management at large organizations in the Israeli economy; in his roles as head of information systems at Israel Discount Bank Ltd. and head of information systems at Maccabi Health Services, engaged extensively in cybersecurity issues – setting policies, work plans, acquisition of solutions, running surveys and implementing solutions to the findings, surveying types of risks and acquiring solutions, setting up centers to identify and cope with attacks, training and absorption, and more.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Israel Trau
Personal details	Identification number: 053641775 Date of birth: December 16, 1955 Address: Pnina Salzman 4, Tel Aviv Jaffa Citizenship: Israeli
Membership in committees of the Board of Directors	Member of the following board committees: the Audit Committee, the Credit Committee, and the Strategy and Business Development Committee.
Is the director an independent director / an external director according to the Companies Law / an external director according to Directive 301?	No.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No.
Date of commencement of service as a director of the company	November 24, 2020.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Humanities (Geography, expanded), Tel Aviv University; senior management course, Lahav Executive Education; advanced course on investments and the capital market, Lahav Executive Education, Tel Aviv University. As of 2019, serves as a business consultant for several companies and ventures, and serves as an external director at Aviation Links Ltd. Formerly – CEO of Union Bank Israel Ltd. (2014-2018); chairperson of the board of directors of Union Investments and Enterprise Ltd. and Union Leasing Ltd.; chairperson of the board of directors and director at Union Systems Ltd. (2014-2018); member of the nostro credit committee at Union Bank Israel Ltd. (2019-2020).
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with accounting and financial expertise and professional qualification. An expert director. Has banking experience.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Dalia Lev
Personal details	Identification number: 007555337 Date of birth: August 2, 1947 Address: Bnei Moshe 16/33, Tel Aviv Jaffa Citizenship: Israeli
Membership in committees of the Board of Directors	Chairperson of the Remuneration Committee of the Board of Directors. Member of the following board committees: the Credit Committee, the Audit Committee, and the Strategy and Business Development Committee.
Is the director an independent director / an external director according to the Companies Law / an external director according to Directive 301?	External director pursuant to the Companies Law.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No.
Date of commencement of service as a director of the company	April 12, 2018.
Education and occupation in last five years, with details of service at corporations as a director	CPA, Hebrew University; LLM, Bar Ilan University; Advanced Management Program, Harvard Business School. Certified mediator, Israel Bar Association. Director at Belgal Ltd. (wholly-owned company). As of August 2019, serves as an external director at Strauss Group Ltd. (in 2008-2017, served as an independent director there). Member of the board of trustees of Tel Aviv University. Member of the board of trustees of Ben Gurion University.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with accounting and financial expertise and professional qualification. An expert director. Has banking experience.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Odelia Levanon
Personal details	Identification number: 057971632 Date of birth: November 16, 1962 Address: Aharon Becker 11, Tel Aviv Jaffa Citizenship: Israeli
Membership in committees of the Board of Directors	Member of the following board committees: the Information Technology and Technological Innovation Committee and the Corporate Governance and Stakeholders Committee. As of January 1, 2024, also a member of the Audit Committee.
Is the director an independent/external director according to the Companies Law or an external director according to Directive 301?	No.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No.
Date of commencement of service as a director of the company	September 13, 2022.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Mathematics and Computer Science, Tel Aviv University; M.Sc. in Computer Science, Tel Aviv University; Ph.D. studies in Business, Tel Aviv University. As of 2015, lecturer on information systems management at the Academic College of Ramat Gan. Formerly – CEO of the Inter-University Computation Center (IUCC) (2017-2021); director at Bos Dimex Ltd. (2014-2021); and independent director at ETG Group Ltd. (2021-2022).
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with professional qualification. An expert director. Has knowledge and experience in the areas of information technology, and has experience in the management of an information security, cybersecurity, and cloud system within the various roles she has held, including in her most recent position as CEO of IUCC. In this position, she was responsible for information security and cybersecurity of the internet network of all of the research institutions in Israel.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Yoel Mintz
Personal details	Identification number: 052302825 Date of birth: February 3, 1954 Address: Hamatsbi'im 58, Tel Aviv Jaffa Citizenship: Israeli
Membership in committees of the Board of Directors	Member of the following board committees: the Credit Committee, the Risk Management and Control Committee, and the Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities. As of January 1, 2024, also a member of the Remuneration Committee.
Is the director an independent director / an external director according to the Companies Law / an external director according to Directive 301?	External director pursuant to Directive 301, and independent director.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No.
Date of commencement of service as a director of the company	November 25, 2021.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Economics, Tel Aviv University; M.B.A., Tel Aviv University. Formerly – chairperson of the board of directors of Bank Leumi UK (2012-2020) and Bank Leumi Romania (2012-2019), and director at Bank Leumi USA (2017-2020).
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with accounting and financial expertise and professional qualification. An expert director. Has banking experience.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	David Zvilichovsky
Personal details	Identification number: 057056426 Date of birth: August 31, 1961 Address: Habanim 1, Ramat Hasharon Citizenship: Israeli
Membership in committees of the Board of Directors	Chairperson of the Risk Management and Control Committee. Member of the following board committees: the Credit Committee, the Information Technology and Technological Innovation Committee, and the Strategy and Business Development Committee.
Is the director an independent director / an external director according to the Companies Law / an external director according to Directive 301?	No.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No.
Date of commencement of service as a director of the company	September 25, 2019.
Education and occupation in last five years, with details of service at corporations as a director	Ph.D. in Economics, Tel Aviv University; M.Sc. in Computer Science, Tel Aviv University; B.A. in Economics, Computer Science, and Mathematics, Hebrew University. As of 2011, member of the senior academic staff of the Department of Management at Tel Aviv University. Teaches in international academic programs, including programs of the Wharton business school. Provides advisory services to advanced-technology companies. Formerly – a director and controlling shareholder at Innovent Israel Ltd. (1999-2022). Served as a guest professor at the Cyprus International Institute of Management (2012-2018).
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with accounting and financial expertise and professional qualification. An expert director. Has knowledge and proven experience in the areas of information technology, and has expertise in the areas of information security and cybersecurity, from MA studies, and experience in the area of information security from various roles in which he served in the past.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Ronit Schwartz
Personal details	Identification number: 022339766 Date of birth: May 29, 1966 Address: Rabbi Chanina 21/6, Tel Aviv Jaffa Citizenship: Israeli
Membership in committees of the Board of Directors	Member of the following board committees: the Risk Management and Control Committee, the Corporate Governance and Stakeholders Committee, the Remuneration Committee, and the Strategy and Business Development Committee. As of January 1, 2024, also a member of the Credit Committee.
Is the director an independent director / an external director according to the Companies Law / an external director according to Directive 301?	No.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No.
Date of commencement of service as a director of the company	November 23, 2021.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Economics, Tel Aviv University; M.B.A., Tel Aviv University; graduate of corporate directors and senior officers course, School of Management, Tel Aviv University. Serves as a director at Energy Infrastructures Ltd. as of 2018 and at Amir Marketing and Investments in Agriculture Ltd. as of 2017. As of 2017, member of the executive board of the Association for Israel's Soldiers. Formerly – an external director at SimiGon Ltd. (2019-2022), Elad Canada Realty Inc. (2018-2021), and Chim Nir Aviation Services Ltd. (2010-2018); director at Ashdod Port Ltd. (2015-2018).
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, an expert director, or a director with other qualifications?	A director with accounting and financial expertise and professional qualification. An expert director. Has banking experience.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1]

Name	Dov Kotler
Personal details	Identification number: 054010483 Date of birth: August 2, 1956
Date of commencement of service	October 1, 2019.
Position at the corporation or at a subsidiary, related company, or interested party thereof	President and Chief Executive Officer, Member of the Board of Management.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Business Administration, Tel Aviv University; M.A. in Economics, Tel Aviv University. Formerly – chairperson of the board of directors of Iintoo Investments Ltd. (and of corporations in which companies in the group are general partners: Pinto Afik and iintoo Oshkosh) (2015-2019). Director on the boards of directors of the following companies: Bezeq The Israel Telecommunication Corp. Ltd., Pelephone, Yes, Bezeq International, and Bezeq On Line (2018-2019). Director at V-Finance Technologies Ltd. (of the Blender group, and at additional companies in the group) (2015-2019). Member of the advisory boards of the fintech startups Doorbill ABC and Splitit Ltd., and external consultant to Max It Finance Ltd. and Warburg Pincus (2015-2019).

Name	Amit Oberkovich
Personal details	Identification number: 059030015 Date of birth: August 19, 1964
Date of commencement of service	December 1, 2019.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Head of Human Resources. Director at Avuka Hevra le Hashkaot Ltd. (a subsidiary of the Bank).
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	M.A. in Political Science, Tel Aviv University; M.B.A., University of Derby. Formerly – a member of the executive board (volunteer) of A.V. Israel (Registered Non-Profit Association) (1998-2023); VP Human Resources at Israel Electric Corporation Ltd. (2015-2019).

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Yael Almog
Personal details	Identification number: 59284745 Date of birth: March 6, 1968
Date of commencement of service	June 1, 2017.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Chief Legal Advisor of the Bank, as of March 1, 2018.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	L.L.B., Tel Aviv University; M.A. in Law, Columbia University, New York; Harvard Business School – Advanced Management Program. Formerly – Head of Stakeholder Relations at the Bank (June 2017-February 2018).

Name	Amir Bachar
Personal details	Identification number: 029331113 Date of birth: April 20, 1972
Date of commencement of service	May 29, 2018.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Chief Internal Auditor. Head of Internal Audit in Israel and Abroad as of June 1, 2022.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Law and Economics, Hebrew University; M.A. in Economics and Ph.D. in Law, Hebrew University. Licensed to practice law. External lecturer on banking law at the Hebrew University (since 2009); lecturer on banking law at Reichman University (since 2022); lecturer on banking law at Bar Ilan University (since 2024). Formerly – Member of the Board of Management, Chief Risk Officer (CRO) of the Bank (May 2018-May 2022).

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Eti Ben-Zeev
Personal details	Identification number: 023571540 Date of birth: December 2, 1967
Date of commencement of service	February 14, 2016.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Head of Information Technology. Chairperson of the board of directors at the subsidiary Poalit Ltd.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Mathematics and Computer Science, Tel Aviv University; M.B.A., Tel Aviv University. Has experience, expertise, and skill in information security and cybersecurity in her role as Head of Information Technology at the Bank, which also encompasses cybersecurity, and from her military service in the 8200 Unit.

Name	Merav Ben Shushan Cohen
Personal details	Identification number: 28710143 Date of birth: August 14, 1971
Date of commencement of service	June 1, 2022.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Chief Risk Officer (CRO).
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Economics and Management, Technion. Formerly – Asset and Liability Management Area Manager at the Bank (August 2016-May 2022).

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Ram Gev
Personal details	Identification number: 032283046 Date of birth: April 3, 1975
Date of commencement of service	January 1, 2020.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Chief Financial Officer (CFO). Chairperson of the board of directors at the following subsidiaries: Mivnim Vetsiud Ltd., Bitan Investments and Mortgages Ltd., Alzur Property Development Company Ltd., Tzadit Ltd., Revadim (Nechasim) Ltd., and Ramchal Poalim Ltd.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Accounting and Economics, Hebrew University; M.B.A., Hebrew University. CPA. Formerly – CFO of Isracard Ltd. (from June 2019 also served as Deputy CEO of Isracard) (2011-2019).

Name	Zeev Hayo
Personal details	Identification number: 057069676 Date of birth: February 24, 1961
Date of commencement of service	July 14, 2014.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Head of Banking Services.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Accounting and Economics, Tel Aviv University. CPA. Formerly – Chief Internal Auditor, Head of Internal Audit in Israel and Abroad at the Bank (July 2014-May 2022); internal auditor of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Peilim (July 2014-May 2022), Poalim Express Ltd. (July 2014-April 2018).

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Itamar Furman
Personal details	Identification number: 25359696 Date of birth: September 2, 1973
Date of commencement of service	July 20, 2022.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Head of Corporate Banking. Chairperson of the boards of directors of the subsidiaries: Diur B.P. Ltd., Diur B.P. Properties (1993) Ltd.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Economics and Management, Bar-Ilan University; M.B.A., specialized in finance and accounting, Tel Aviv University. Formerly – Corporate Area Manager at the Bank (2021-2022); Infrastructure, Energy, and Capital Market Sector Manager at the Bank (2016-2021).

Name	Guy Kalif
Personal details	Identification number: 028761088 Date of birth: September 23, 1971
Date of commencement of service	January 1, 2021.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Chief Accountant.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Accounting and Economics, Tel Aviv University; M.B.A., Tel Aviv University. Formerly – Director at Hapoalim Switzerland (May 2018-September 2023); Finance and Management Information Area Manager at the Bank (2016-2020); director and chairperson of the risk management committee at Isracard Ltd. (2013-2020).

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Yadin Antebi
Personal details	Identification number: 028078525 Date of birth: October 31, 1970
Date of commencement of service	July 23, 2013.
Position at the corporation or at a subsidiary, related company, and/or interested party thereof	Member of the Board of Management, Head of Financial Markets and International Banking, as of May 29, 2018. Chairperson of the board of directors of the following subsidiaries: Hapoalim Switzerland Ltd., Poalim Financial Holdings (1993) Ltd., Bank Hapoalim Nominee Company Ltd., Poalim Equity and Investments Holdings Ltd., Poalim Equity - Investment House Ltd., Opaz Ltd., BAMI Nechasim Ltd., Poalim Ofakim Ltd., and Poalim Mortgages Insurance Agency (2005) Ltd.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Accounting and Economics, Hebrew University of Jerusalem; M.B.A. (specialized in finance), Hebrew University of Jerusalem. CPA. Director at Yadin Antebi Consulting Ltd. Formerly – Chief Financial Officer (CFO) at the Bank (2013-2018); Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance (2005-2009); deputy chairperson of the board of directors at Bank Pozitif (2018).

Name	Dalit Tova Raviv
Personal details	Identification number: 024149783 Date of birth: June 22, 1969
Date of commencement of service	November 13, 2019.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Head of Retail Banking.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Economics, Ben-Gurion University; M.B.A., Tel Aviv University. Formerly – Commercial Banking Area Manager, Corporate Banking Division, at the Bank (2016-2019).

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Gilad Bloch
Personal details	Identification number: 028487296 Date of birth: March 15, 1971
Date of commencement of service	February 1, 2019.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Corporate Secretary
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Business Administration, College of Management, Rishon Lezion; M.B.A., Executive MBA Program, Tel Aviv University. Formerly – Personal Assistant to the CEO of the Bank in the areas of credit, compliance, and risk management (2017-2019).

Name	Igal Bareket
Personal details	Identification number: 024557043 Date of birth: October 24, 1969
Date of commencement of service	May 16, 2022.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Chief Marketing Officer.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Business and Communications, College of Management. Formerly – CEO of the advertising firm Yehoshua TBWA (2017-2022).

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Rivka Gugig
Personal details	Identification number: 036164994 Date of birth: March 12, 1979
Date of commencement of service	September 4, 2022.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Chief Transformation Officer (CTRO). Serves as chairperson of the board of directors of Poalim Sahar Ltd. (subsidiary) as of March 2021.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No.
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.Sc. in Software Engineering, Lustig Campus, Lev Academic Center; M.B.A., specialized in information systems, Lustig Campus, Lev Academic Center. Formerly – Financial Applications Senior Manager, Information Technology Division at the Bank (2020-2022); Capital Market Applications and Dealing Room Department Manager at the Bank (2018-2020).

Standard 26B Independent authorized signatories

None.

Standard 27 Accountants of the Bank

Ziv Haft, Certified Public Accountants, 48 Menachem Begin Rd., Tel-Aviv.

Somekh Chaikin, Certified Public Accountants, 17 Ha'arba'ah St., Tel Aviv.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 28 Details of changes in the Memorandum and Articles of the Bank

At the general meeting of shareholders convened on November 8, 2023, the proposed amendments to the articles of the Bank were approved, including, among other matters, an update of directives and terminology that were relevant in the past and are no longer in use (for example, directives pertaining to the role of the deputy chairperson of the Board of Directors); adaptation of the directives of the articles to the directives of the law (including the Companies Law and the Proper Conduct of Banking Business Directives); update of the directives concerning appointments to the Board of Management of the Bank and the work of the Board of Management; and an update of the relevant terminology in the directives pertaining to indemnity and insurance in reference to administrative enforcement procedures to address additional legislation that includes administrative enforcement mechanisms, concurrently with an update on this matter in the letters of indemnity for officers. For additional details, see the Immediate Report of the Bank of September 28, 2023 (reference no. 2023-01-110688).

Standard 29 Recommendations and resolutions of the directors

A. Recommendations of the Board of Directors to the general meeting, and resolutions that do not require approval by the general meeting:

1. Dividend distribution – for details regarding dividend distribution, see Table 2-21 in the section "Capital, capital adequacy, and leverage" in the Report of the Board of Directors and Board of Management.
2. Changes in capital – for details regarding a change in the number of dormant shares of the Bank as a result of the automatic conversion of RSU of employees of the Bank (who are not officers) into ordinary shares of the Bank (held as dormant by the Bank), see the report of March 23, 2023 (reference no. 2023-01-026124); and regarding the allocation of restricted shares and restricted stock units to executives and employees of the Bank within the remuneration plan, see the reports of May 22, 2023 (reference no. 2023-01-054207) and May 24, 2023 (reference no. 2023-01-055386).
3. Changes in the Memorandum and Articles of the Bank – see details in Standard 28, above.
4. Redemption of shares – none.
5. Early redemption of Subordinated Notes (Series H) – on December 31, 2023, the Bank executed full early redemption of Subordinated Notes (Series H), in consideration for a total of approximately NIS 847,194 thousand. The early redemption was approved by the Board of Directors of the Bank and by the Supervisor of Banks. For further information, see the Immediate Reports of the Bank of November 22, 2023 (reference no. 2023-01-126960), December 4, 2023 (reference no. 2023-01-132003), and December 17, 2023 (reference no. 2023-01-136743).
6. Transactions not at market terms between the Bank and an interested party of the Bank, except a transaction of the corporation with a subsidiary thereof – none.

B. Resolutions of the general meeting passed in contradiction of the recommendations of the Board of Directors – none.

Standard 29 Recommendations and resolutions of the directors (continued)

C. Resolutions of a special general meeting – no special general meeting was held in 2023. For details regarding resolutions passed at the annual general meeting held on November 8, 2023, see the section "Other matters" in the chapter "Corporate governance and additional information."

Standard 29A Resolutions of the company

Extraordinary transactions that require approval under Section 270(1) of the Companies Law – for details regarding the granting of updated letters of indemnity to officers who serve and who will serve at the Bank from time to time, approved at the general meeting of November 8, 2023, see Note 25.B.3 to the Financial Statements.

Standard 29A(4) – All of the directors and officers of the Bank have exemption letters and indemnity commitments, and are insured under an officers' liability policy.

Exemption for officers

On February 18, 2016, the general meeting of shareholders of the Bank, following the approval of the Remuneration Committee (at its meetings of January 7 and 10, 2016), and the Board of Directors of the Bank (at its meeting of January 13, 2016), approved the granting of letters of exemption to the officers and directors of the Bank serving and/or who may serve from time to time at the Bank, including the CEO of the Bank, serving and/or who may serve from time to time, and including the officers and directors of the Bank, serving and/or who may serve from time to time, in the granting of letters of exemption to whom the controlling party of the Bank (at the time) may have been considered to have a personal interest. Pursuant to the letters of exemption, the Bank exempts the officer, subject to the provisions of the Companies Law, from responsibility towards the Bank due to any damage to the Bank and/or to subsidiaries of the Bank and/or to related companies of the Bank and/or to any other corporations in which the Bank holds securities, and/or may hold securities from time to time, caused by a past or future action or omission of the officer during the term of the officer's service, which constitutes a violation of the duty of care of the officer towards the Bank. The exemption shall not apply to an action or omission of the officer pertaining to a decision or transaction in which the controlling party or any officer of the Bank has a personal interest. At the date of the report, all of the directors and officers of the Bank have letters of exemption. For further details, see the Immediate Report on convening the meeting issued by the Bank on January 13, 2016 (reference no. 2016-01-009607).

Standard 29 Recommendations and resolutions of the directors (continued)

Officers' insurance

Within the officer remuneration policy of the Bank, which was approved by the meeting of shareholders of the Bank on November 8, 2023, a framework of liability limits of up to USD 500 million was established for the acquisition of an officer liability insurance policy, and in addition, an option to acquire a POSI (public offering of securities insurance) policy, and a run-off officer liability insurance policy (providing coverage for past activity) under circumstances of structural changes or changes in control.

In June 2023, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (the "Relief Regulations")) and the Board of Directors approved the renewal of an insurance policy providing coverage for liability of directors and officers at the Bank Group and monetary indebtedness that may be imposed upon them due to their function as officers, also including coverage for the company in respect of amounts for which it indemnifies officers and in respect of securities claims. The insurance coverage has liability limits of USD 183 million, as well as additional coverage for directors and officers (Side A) with liability limits of USD 72 million (total coverage of USD 255 million), beginning July 1, 2023, for a period of twelve months. The total premium for the aforesaid insurance coverage is approximately USD 6.1 million.

Within the separation from Isracard Ltd. ("Isracard"), on December 26, 2018, further to the approval of the Audit Committee on December 19, 2018, and the approval of the Remuneration Committee on December 19, 2018 (pursuant to Regulation 1B1 of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000), the Board of Directors approved the acquisition of a POSI (public offering of securities insurance) policy in connection with the offering of shares of Isracard, jointly with Isracard. The policy insures directors' and officers' liability at the Bank and at Isracard, and insures the Bank and Isracard in respect of offerings of shares of Isracard to the public by the Bank, and an initial offering of bonds by Isracard in April 2019. The liability limit of the policy is in the amount of USD 200 million per claim and cumulatively. The premium for the POSI policy is approximately USD 1 million. The policy is in effect from March 1, 2019, to January 31, 2028.

Indemnification of officers

For details regarding indemnity letters received by all officers serving at the Bank, see Note 25.B.3 to the Financial Statements.

Guy Kalif
Member of the Board of Management,
Chief Accountant

Gilad Bloch
Corporate Secretary

Tel-Aviv, March 6, 2024

Corporate Governance Questionnaire[1]

Independence of the board of directors			
		True	False
1.	Throughout the reported year, two or more external directors served at the corporation. This question can be answered "True" if the period during which two external directors did not serve does not exceed 90 days, as noted in Section 363A(b)(10) of the Companies Law; however, with any answer (true/false), the duration of the period (in days) in which two or more external directors did not serve at the corporation during the reported year should be noted (including a term of service approved retrospectively, separately for each of the external directors): Director A: **Ronit Abramson-Rokach** Director B: **Dalia Lev** Director C: **David Avner** Number of external directors serving at the corporation as at the date of publication of this questionnaire: **3** **(and 3 additional external directors as defined in Directive 301 of the Supervisor of Banks, who are not external directors pursuant to the directives of the Companies Law).**	✓	
2.	Rate[2] of independent directors[3] serving at the corporation as at the date of publication of this questionnaire: **5/10.** Rate of independent directors established in the articles[4] of the corporation[5]: _____ Not applicable (no directive has been established in the articles). **Pursuant to the provisions of the Banking Ordinance, because the Bank is a banking corporation without a controlling core, all of the directors are required to have no affinity to the Bank, or, effectively, to be independent of the Bank. In addition, pursuant to Directive 301 of the Supervisor of Banks, at least one-third of the directors on the Board of Directors of the Bank are required to be external directors, as defined in Directive 301 (including external directors pursuant to the Companies Law). As noted, six external directors, as defined in Directive 301, serve at the Bank; excluding the Chairman of the Board, the other external directors are also independent directors.**	____	____
3.	An examination was conducted in the reported year with the external directors (and the independent directors), and it was found that they fulfilled the directives of Section 240(B) and (F) of the Companies Law, in the reported year, with regard to the lack of affinity of the external (and independent) directors serving at the corporation, and that they fulfilled the required conditions for service as external (or independent) directors.	✓	

(1) Published pursuant to the proposed legislation for the improvement of financial statements of March 16, 2014.
(2) In this questionnaire, "**rate**" indicates the specific number out of the total; for example, 3/8.
(3) Including "external directors" as defined in the Companies Law.
(4) For the purposes of this question, "articles," including according to a specific legal directive applicable to the corporation (for example, at a banking corporation, the directives of the Supervisor of Banks).
(5) A bond company is not required to answer this item.

Corporate Governance Questionnaire (continued)

Independence of the board directors (continued)			
		True	False
4.	None of the directors who served at the corporation during the reported year report[6] to the general manager, directly or indirectly (with the exception of a director who is a representative of the employees, if the corporation has employee representation). If your answer is "False" (i.e. the director reports to the general manager, as noted), the rate of directors who do not meet this limit should be noted: _____	✓	
5.	All directors who gave notice of the existence of a personal interest in the approval of a transaction on the agenda of a meeting did not attend that discussion and did not participate in such voting (with the exception of a discussion and/or vote under circumstances according to Section 278(B) of the Companies Law). If your answer is "False" – Was this for the purpose of presentation of a specific subject by the director, in accordance with the directives of Section 278(A), last clause? ☒ **Yes** ☐ No (mark an X in the appropriate box) Note the rate of meetings in which directors as noted above were present at a discussion and/or participated in a vote, except under the circumstances as noted in Subsection (a): **0%**.		✓
6.	A controlling party (including a relative thereof and/or a person acting on behalf thereof), who is not a director or other senior officer of the corporation, was not present at the meetings of the board of directors held during the reporting year. If your answer is "False" (i.e., a controlling party and/or a relative thereof and/or a person acting on behalf thereof who is not a member of the board of directors and/or a senior officer of the corporation was present at meetings of the board of directors, as noted) – state the following information regarding the presence of each additional person at meetings of the board of directors, as noted: Identity: — Position at the corporation (if any): — Details of affinity to controlling party (if the person present is not the controlling party): — Was this for the purpose of presentation of a specific subject by the attendee? No (mark an X in the appropriate box) Rate of attendance[7] at meetings of the board of directors held in the reported year in order to present a specific subject: — Other attendance: — ☒ Not applicable (the corporation does not have a controlling party).		

(6) For the purposes of this question, service as a director at an affiliated corporation controlled by the corporation shall not be considered, in itself, "reporting." However, service of a director of the corporation as an officer (other than a director) and/or employee of an affiliated corporation controlled by the corporation shall be considered "reporting" for the purposes of this question.

(7) With differentiation of the controlling party, a relative thereof, and/or a person acting on behalf thereof.

Corporate Governance Questionnaire (continued)

Qualification and skills of directors				
			True	False
7.		The articles of the corporation do not contain a directive restricting its ability to immediately terminate the service of any directors of the corporation who are not external directors (for this purpose, determination by simple majority is not considered a restriction).[8] **Special legal directives apply to a banking corporation without a controlling core.** If your answer is "False" (i.e., such a restriction does exist), state:	✓	
	A.	The period of time specified in the articles for the service of a director: _____		
	B.	The required majority specified in the articles for the termination of service of directors: _____		
	C.	The legal quorum at the general meeting specified in the articles for the termination of service of directors: _____		
	D.	The majority required to change these directives in the articles: _____		
8.		The corporation has prepared a training program for new directors in the area of the business of the corporation and in the area of the law applicable to the corporation and to the directors, as well as a program for continued training of serving directors, adapted, among other matters, to the position held by the director at the corporation. If your answer is "True," state whether the program was operated during the reported year: ☒ **Yes** ☐ No (mark an X in the appropriate box)	✓	
9.	A.	A minimum required number of directors on the board of directors who must have accounting and financial expertise has been established at the corporation. If your answer is "True," state the minimum number established: **3**.	✓	
	B.	The number of directors who served at the corporation during the reported year who have accounting and financial expertise:[9] **8** Directors with professional qualification:[10] **10** If the number of such directors changed during the reported year, state the lowest number (except during the period of 60 days from the change) of directors of each kind who served during the reported year.		

(8) A bond company is not required to answer this item.
(9) After evaluation of the Board of Directors, pursuant to the directives of the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise), 2005.
(10) See footnote 9 above.

Corporate Governance Questionnaire (continued)

Qualification and skills of directors (continued)				
			True	False
10.	A.	The composition of the board of directors included members of both sexes throughout the reported year. If your answer is "False," state the duration of the period (in days) during which this was not the case: _____ This question can be answered "True" if the period during which directors of both sexes did not serve does not exceed 60 days; however, for any answer (true/false), the duration of the period (in days) in which directors of both sexes did not serve at the corporation should be noted: _____	✓	
	B.	Number of directors of each sex serving on the board of directors of the corporation as at the date of publication of this questionnaire: Men: **6**, Women: **4**.		

Corporate Governance Questionnaire (continued)

<table>
<tr><th colspan="9">Meetings of the board of directors (and convening of the general meeting)</th></tr>
<tr><td colspan="7"></td><td>True</td><td>False</td></tr>
<tr><td>11.</td><td>A.</td><td colspan="5">Number of meetings of the board of directors held during each quarter of the reported year:
First quarter (2023): <u>10</u>
Second quarter: <u>7</u>
Third quarter: <u>8</u>
Fourth quarter: <u>11</u></td><td></td><td></td></tr>
<tr><td></td><td>B.</td><td colspan="5">Beside each of the names of the directors who served at the corporation during the reported year, note the rate of meetings of the board of directors in which he or she participated (in this subsection, including meetings of the committees of the board of directors of which he or she is a member, as noted below), which were held during the reported year (in reference to the term of his or her service):
(add additional rows according to the number of directors).</td><td></td><td></td></tr>
<tr><td></td><td></td><td>Director's name</td><td>Rate of participation in meetings of the board of directors</td><td>Rate of participation in meetings of the audit committee[11]</td><td>Rate of participation in meetings of the committee for the examination of the financial statements[12]</td><td>Rate of participation in meetings of the remuneration committee</td><td>Rate of participation in meetings of additional committees of the board of directors of which the director is a member (note the name of the committee)</td><td></td><td></td></tr>
<tr><td></td><td></td><td>Ruben Krupik</td><td>100%</td><td></td><td></td><td></td><td>Strategy and Business Development Committee – 100%
Corporate Governance and Stakeholders Committee – 100%
Credit Committee – 95%
Information Technology and Technological Innovation Committee – 100%
Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities – 100%
Risk Management and Control Committee – 93%</td><td></td><td></td></tr>
</table>

(11) With regard to a director who is a member of this committee. Pursuant to the supervisory directives, discussions of the financial statements are held by the audit committee of the board of directors.

(12) See footnote 11 above.

Corporate Governance Questionnaire (continued)

Meetings of the board of directors (and convening of the general meeting) (continued)									
								True	False
		David Avner	100%	100%	100%	89%	Strategy and Business Development Committee – 100% Risk Management and Control Committee – 93% Information Technology and Technological Innovation Committee – 100%		
		Ronit Abramson-Rokach	100%	100%	100%	100%	Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities – 100% Risk Management and Control Committee – 100% Corporate Governance and Stakeholders Committee – 100%		
		Noam Hanegbi	100%	100%	100%	89%	Credit Committee – 100% Corporate Governance and Stakeholders Committee – 100% Information Technology and Technological Innovation Committee – 100% Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities – 100%		
		Israel Trau	100%	100%	100%		Credit Committee – 100% Strategy and Business Development Committee – 100%		
		Dalia Lev	100%	100%	100%	100%	Credit Committee – 100% Strategy and Business Development Committee – 100%		
		Odelia Levanon	100%				Corporate Governance and Stakeholders Committee – 100% Information Technology and Technological Innovation Committee – 100%		

Corporate Governance Questionnaire (continued)

Meetings of the board of directors (and convening of the general meeting) (continued)									
								True	False
		Yoel Mintz	97%				Credit Committee – 100% Risk Management and Control Committee – 100% Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities – 100%		
		David Zvilichovsky	100%				Risk Management and Control Committee – 100% Credit Committee – 95% Strategy and Business Development Committee – 100% Information Technology and Technological Innovation Committee – 100%		
		Ronit Schwartz	100%				Risk Management and Control Committee – 100% Corporate Governance and Stakeholders Committee – 100% Strategy and Business Development Committee – 100%		
12.	The board of directors held at least one discussion during the reported year regarding the management of the business of the corporation by the general manager and the officers who report to the general manager, when they were not present, and they were given the opportunity to express their position.							✓	

Corporate Governance Questionnaire (continued)

Separation of the duties of the general manager and the chairperson of the board of directors				
			True	False
13.	A chairperson of the board of directors served at the corporation throughout the reported year. This question can be answered "True" if the period during which a chairperson of the board of directors did not serve at the corporation does not exceed 60 days, as noted in Section 363A(2) of the Companies Law; however, for any answer (true/false), the duration of the period (in days) in which a chairperson of the board of directors did not serve at the corporation should be noted: _____		✓	
14.	A general manager served at the corporation throughout the reported year. This question can be answered "True" if the period during which a general manager did not serve at the corporation does not exceed 90 days, as noted in Section 363A(6) of the Companies Law; however, for any answer (true/false), the duration of the period (in days) in which a general manager did not serve at the corporation should be noted: _____		✓	
15.	At a corporation where the chairperson of the board of directors also serves as the general manager of the corporation and/or exercises the authority of the general manager, the double service has been approved in accordance with the directives of Section 121(C) of the Companies Law.[13] ☒ Not relevant (as no such double service exists at the corporation).			
16.	The general manager <u>is not</u> a relative of the chairperson of the board of directors. If your answer is "False" (i.e., the general manager is a relative of the chairperson of the board of directors) –		✓	
	A	State the familial relationship between the parties: _____	____	____
	B	The service was approved pursuant to Section 121(C) of the Companies Law:[14] ☐ Yes ☐ No (mark an X in the appropriate box)	____	____
17.	A controlling party or a relative thereof <u>does not</u> serve as the general manager or as a senior officer of the corporation, except as a director. ☒ Not applicable (the corporation does not have a controlling party).			

(13) At a bond company, approval pursuant to Section 121(D) of the Companies Law.
(14) At a bond company, approval pursuant to Section 121(D) of the Companies Law.

Corporate Governance Questionnaire (continued)

Audit committee				
			True	False
18.	The following persons did not serve on the audit committee during the reported year:		____	____
	A.	A controlling party or a relative thereof. ☒ Not applicable (the corporation does not have a controlling party).		
	B.	The chairperson of the board of directors.	✓	
	C.	A director employed by the corporation or by a controlling party of the corporation or by a corporation under a controlling party's control.	✓	
	D.	A director who regularly provides services to the corporation or to a controlling party of the corporation or to a corporation under a controlling party's control.	✓	
	E.	A director whose primary livelihood depends on the controlling party. ☒ Not applicable (the corporation does not have a controlling party).		
19.	No person not permitted to be a member of the audit committee, including a controlling party or a relative thereof, was present at the meetings of the audit committee during the reported year, except in accordance with the directives of section 115(E) of the Companies Law.(15)		✓	
20.	The legal quorum for discussion and for the passing of resolutions at all meetings of the audit committee held during the reported year was a majority of the members of the committee, where the majority of those present were independent directors, and at least one of those present was an external director. If your answer is "False," state the rate of meetings at which this requirement was not fulfilled: _____		✓	
21.	The audit committee held at least one meeting during the reported year in the presence of the internal auditor and the external auditor, without the presence of officers of the corporation who are not members of the committee, with regard to flaws in the business management of the corporation.		✓	
22.	For all meetings of the audit committee attended by a person not authorized to be a committee member, such attendance was approved by the chairperson of the committee and/or was at the request of the committee (with regard to the legal counsel and secretary of the corporation who is not a controlling party or a relative thereof).		✓	
23.	Arrangements were in effect during the reported year, established by the audit committee, with respect to the treatment of complaints of employees of the corporation regarding flaws in the management of its business and with respect to the protection to be given to employees who make such complaints.		✓	
24.	The audit committee (and/or the committee for the examination of the financial statements) obtained satisfactory assurance that the volume of work and the fees of the external auditor with respect to the financial statements in the reported year were appropriate in order to adequately perform the auditing and reviewing work.		✓	

(15) Members of the Board of Directors who are not members of the Audit Committee were present at parts of several meetings of the committee in 2023 in order to present a specific topic (in accordance with the directives of Section 115(E) of the Companies Law), and were present while the financial statements were discussed, when the committee was in session as the committee for the examination of the financial statements.

Corporate Governance Questionnaire (continued)

Duties of the committee for the examination of the financial statements (hereinafter: the committee) in its preliminary work prior to the approval of the financial statements[16]				
			True	False
25.	A.	Period of time (in days) established by the board of directors as a reasonable period for the submission of recommendations of the Committee in advance of the meeting of the board of directors in which the financial statements are approved: **2 days, if possible.**	____	____
	B.	Actual number of days elapsed from the submission of the recommendations to the board of directors to the date of the discussion of the approval of the financial statements by the board of directors: Report for the first quarter (2023): **2** Report for the second quarter: **2** Report for the third quarter: **2** Annual report: **2**	____	____
	C.	Number of days elapsed from the submission of the draft of the financial statements to the directors to the date of the discussion of the approval of the financial statements by the board of directors: Report for the first quarter (2023): **7** Report for the second quarter: **6** Report for the third quarter: **7** Annual report: **7**		
26.		The external auditor of the corporation attended all meetings of the Committee and of the board of directors in which the financial statements of the corporation referring to the periods included in the reported year were discussed. If your answer is "False," state the rate of participation: _____	✓	

(16) In accordance with the directives of the Banking Supervision Department, the Audit Committee serves as the committee for the examination of the financial statements.

Corporate Governance Questionnaire (continued)

Duties of the committee for the examination of the financial statements (hereinafter: the Committee) in its preliminary work prior to the approval of the financial statements[16] (continued)				
			True	False
27.	All of the following conditions were fulfilled by the Committee during the entire reported year and until the publication of the annual report:		____	____
	A.	The number of members did not fall below three (at the date of the discussion by the Committee and the approval of the financial statements, as noted).	✓	
	B.	All of the conditions set forth in Section 115(B) and (C) of the Companies Law (with regard to the service of members of the audit committee) were fulfilled.[17]	✓	
	C.	The chairperson of the Committee is an external director.	✓	
	D.	All of the members are directors and the majority of members are independent directors.	✓	
	E.	All of the members have the ability to read and understand financial statements, and at least one of the independent directors has accounting and financial expertise.	✓	
	F.	The members of the Committee made a declaration prior to their appointment.	✓	
	G.	The legal quorum for discussions and for passing of resolutions in the Committee is a majority of its members, provided that the majority of those present are independent directors, including at least one external director.	✓	
	If your answer to one or more of the subsections of this question is "False," note the report (periodic/quarterly) with respect to which the condition was not fulfilled and state which condition was not fulfilled: _____		____	____

(16) In accordance with the directives of the Banking Supervision Department, the Audit Committee serves as the committee for the examination of the financial statements.

(17) See footnote 16 above.

Corporate Governance Questionnaire (continued)

The remuneration committee				
			True	False
28.	In the reported year, the committee consisted of at least three members, and external directors were a majority of the committee (at the date of the discussion in the committee). ☐ Not applicable (no discussion was held).		✓	
29.	The terms of service and employment of all members of the remuneration committee in the reported year are in accordance with the Companies Regulations (Rules for Remuneration and Expenses of External Directors), 2000.		✓	
30.	The following persons did not serve on the remuneration committee during the reported year:		____	____
	A.	A controlling party or a relative thereof. ☒ Not applicable (the corporation does not have a controlling party).		
	B.	The chairperson of the board of directors.	✓	
	C.	A director employed by the corporation or by a controlling party of the corporation or by a corporation under a controlling party's control.	✓	
	D.	A director who regularly provides services to the corporation or to a controlling party of the corporation or to a corporation under a controlling party's control.	✓	
	E.	A director whose primary livelihood depends on the controlling party. ☒ Not applicable (the corporation does not have a controlling party).		
31.	A controlling party or a relative thereof were not present at the meetings of the remuneration committee during the reported year, unless the chairperson of the committee determined that the presence of any of them was required for the presentation of a particular matter. ☒ Not applicable (the corporation does not have a controlling party).			
32.	The remuneration committee and the board of directors did not exercise their authority pursuant to sections 267A(C), 272(C)(3), and 272(C1)(1)(c) for the approval of a transaction or remuneration policy despite the objection of the general meeting of shareholders. If your answer is "False," state – The type of transaction approved in the aforesaid manner: _____ The number of times this authority was exercised during the reported year: _____		✓	

Corporate Governance Questionnaire (continued)

Internal auditor			
		True	False
33.	The chairperson of the board of directors or the general manager of the corporation is the organizational supervisor of the internal auditor of the corporation.	✓	
34.	The chairperson of the board of directors or the audit committee approved the work plan in the reported year. In addition, list the audit subjects addressed by the internal auditor during the reported year:[18] _____	✓	
35.	Volume of employment of the internal auditor at the corporation in the reported year (in hours[19]): **100% position** **For details regarding number of employee positions in Internal Audit at the Bank, see Section 6.2, "Internal audit," in the section of the report concerning corporate governance and additional information.**	____	____
	A discussion of the findings of the internal auditor was held (by the audit committee or the board of directors) during the reported year.	✓	
36.	The internal auditor is not an interested party of the corporation, a relative thereof, an external auditor, or anyone acting on behalf thereof, and does not maintain material business ties with the corporation, a controlling party of the corporation, a relative thereof, or corporations under their control.	✓	

(18) For details regarding internal audit at the Bank, see Section 6.2, "Internal Audit," in the section of the report concerning corporate governance and additional information.
(19) Including hours of work invested at affiliated corporations and in audits outside Israel, as relevant.

Corporate Governance Questionnaire (continued)

Transactions with interested parties			
		False	False
37.	The controlling party or a relative thereof (including a company under the control thereof) is not employed by the corporation and does not provide the corporation with management services. If your answer is "False" (i.e., the controlling party or a relative thereof is employed by the corporation or provides it with management services), state – The number of relatives (including the controlling party) employed by the corporation (including companies under their control and/or through management companies):_____ Were the aforesaid employment agreements and/or management services approved by the legally appointed organs: ☐ Yes ☐ No (mark an X in the appropriate box) ☒ Not applicable (the corporation does not have a controlling party). _____		
38.	To the best of the corporation's knowledge, the controlling party does not have additional business in the area of activity of the corporation (in one or more areas). If your answer is "False" – state whether an arrangement has been established for boundaries between the activities of the corporation and of the controlling party thereof: ☐ Yes ☐ No (mark an X in the appropriate box) ☒ Not applicable (the corporation does not have a controlling party).		

Ruben Krupik
Chairman of the Board of Directors

Ronit Abramson-Rokach
Chairperson of the Audit Committee[20]

Tel Aviv, March 6, 2024

(20) See footnote 16 above.

Active market

A market in which transactions in an asset or liability are executed at a sufficient frequency and volume in order to provide pricing information on a regular basis.

Average duration

Weighted average term to maturity of the principal and interest payments on a bond.

B2B

Business to business

A business activity in which a product is sold or a service is provided by an organization to another organization.

Basel 2/Basel 3

Risk-management regulations for banks, established by the Basel Committee, which supervises and sets standards for supervision of banks worldwide.

Bid-ask spread

The spread between a proposed buying and selling price. Essentially, the difference between the highest price that a buyer is willing to pay for an asset and the lowest price at which the seller is willing to sell it.

Bond

A security that constitutes a certificate of obligation to pay a debt, in which the issuer promises to pay the holder of the bond the amount of principal issued, plus interest/coupon payments, at fixed intervals or upon fulfillment of a particular condition; a financial instrument that can be used by the government and by firms to borrow money from the public.

CPI

Consumer price index

An index published by the Central Bureau of Statistics, measuring monthly changes in the prices of products and services that compose the "consumption basket" of an average family.

CVA

Credit valuation adjustment

Calculation of credit risk in derivatives reflecting the potential expected loss to the bank in the event of default by the counterparty.

Debt

A contractual right to receive money on demand, or at fixed or fixable intervals, recognized in the balance sheet of the banking corporation as an asset (e.g. deposits with banks, bonds, securities purchased or sold in agreements to resell, credit to the public, credit to the government, etc.). Debts do not include deposits with the Bank of Israel or assets in respect of derivative instruments.

Debt contingent on collateral

Debt expected to be repaid exclusively from the collateral, where there are no other available and reliable repayment sources.

Derivative instrument

A financial instrument or future contract, the value of which is derived from the value of an underlying asset, for which a market exists wherein its value can be determined.

Dormant shares

Shares held directly by the company itself. These shares are denied rights to capital or voting in the company.

FATCA

Foreign Accounts Tax Compliance Act

An American law aimed at improving tax enforcement, pursuant to which financial entities outside the United States must report to the US tax authorities on accounts maintained with them and owned by anyone obligated to report to these authorities, even if not a resident of the United States.

FDIC

Federal Deposit Insurance Corporation

The Federal Deposit Insurance Corporation in the United States.

Financial instrument

Any contract that creates a financial asset in one entity and a financial liability or equity instrument in another entity.

FINMA

Swiss Financial Market Supervisory Authority

The government agency that supervises financial institutions in Switzerland.

Fixed-term deposits

Deposits in which the depositor does not have the right or authorization to withdraw funds for at least six days from the date of the deposit.

GRI

Global Reporting Initiative

An international standard for reporting on sustainability and corporate social responsibility.

ICAAP

Internal Capital Adequacy Assessment Process

An internal process to assess capital adequacy and establish strategy to ensure the capital adequacy of banking corporations. The process is designed to ensure that banking corporations hold adequate capital to support all of the risks inherent in their activities, and that they develop and apply appropriate processes to manage risks. Among other elements, the process includes setting capital targets, performing capital planning processes, and examining the condition of capital under a variety of extreme scenarios.

Indebtedness

As defined in Proper Conduct of Banking Business Directive 313.

LDC

Less developed country

A country classified by the World Bank as having low or medium revenue.

LTV

Loan to value ratio

The amount of a loan (including an unutilized approved credit facility) as a percentage of the pledged asset (according to the banking corporation's share in the pledge).

MTM

Mark to market

Revaluation of a derivative instrument based on price quotes from relevant markets, or in the absence thereof, based on alternative evaluation methods.

NPL

Non-performing loan

Credit not accruing interest income.

Obligo

Total indebtedness; total liabilities of the customer to the Bank.

Off-balance sheet credit

Commitments to grant credit and guarantees (excluding derivative instruments).

On-demand deposits

Deposits other than fixed-term deposits.

OTC derivative

Over-the-counter derivative

A derivative instrument in which financial institutions contract during the ordinary course of business, for which a market exists where its value can be determined.

Repurchase/resale agreements

Agreements to purchase or sell securities in consideration for cash or securities, in which, at the time of the transaction, the seller and the buyer agree to perform the reverse transaction at a date and price agreed upon in advance.

Securitization

Non-bank capital raising by a financial entity through special bonds reflecting the expected cash flows in respect of pooled loans.

Subordinated notes

Notes in which rights are subordinate to the claims of all other creditors of the banking corporation, excluding other notes and notes of the same type.

Supervisory capital

Supervisory capital comprises two tiers: Tier 1 capital and Tier 2 capital, as defined in Proper Conduct of Banking Business Directive 202.

Syndication

A transaction in which several lenders jointly grant a loan to a single borrower, but each lender provides a loan to the borrower in a specific amount and has the right to repayment by the borrower. Groups of lenders frequently finance loans together when the amount granted is higher than the amount that any one lender is willing to lend.

Tier 1 capital

Includes common equity Tier 1 capital and additional Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202.

Tier 2 capital

Gone-concern capital, as defined in Proper Conduct of Banking Business Directive 202.

VaR

Value at risk

A commonly used statistical model for the quantification of market risks. The model uses historical data to assess the maximum expected loss in respect of a particular position or portfolio, for a defined time horizon, at a defined significance level.

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