Q3

Disclosure according to the Third Pillar of Basel and Additional information on Risks

Link to an accessible report

Disclosure according to the third pillar of Basel and additional information on risks - List of tables

The meeting of the Board of Directors held on November 26, 2023, within the framework of approval of the Bank's Report for the third quarter of 2023, decided to approve and publish the report in the matter of "Disclosure according to the third pillar of Basel and additional information on risks". For further relevant information, the "Risks review" chapter in the Board of Directors and Management Report should be viewed in the 2022 Annual Report and the Report for the third quarter of 2023, including in the document "Disclosure according to the third pillar of Basel and additional information on risks", which was published in the framework of the 2022 Annual Report.

Principal regulatory ratios and review of risk management and risk assets

Principal regulatory ratios (KM1)

	30.09.2023	30.06.2023	31.03.2023	31.12.2022	30.09.2022
			in NIS millions		
Available capital					
Common equity tier 1	28,065	27,448	26,542	25,353	24,653
Common equity tier 1 before applying the effect of the transition	27,809	27,175	26,247	25,012	24,294
Tier 1 capital	28,065	27,448	26,542	25,353	24,653
Tier 1 capital before applying the effect of the transition	27,809	27,175	26,247	25,012	24,294
Total capital	35,563	34,882	33,545	32,231	31,013
Total capital before applying the effect of the transition	35,297	34,601	33,248	31,890	30,669
Weighted average of risk assets					
Total weighted average of risk assets	**270,905**	**265,227**	**259,788**	**247,447**	**242,446**
Ratio of capital adequacy according to instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.36	10.35	10.22	10.25	10.17
Ratio of common equity tier 1 before applying the effect of the transition	10.26	10.24	10.08	10.07	9.97
Tier I capital ratio	10.36	10.35	10.22	10.25	10.17
Tier I capital ratio before applying the effect of the transition	10.26	10.24	10.08	10.07	9.97
Ratio of total capital	13.13	13.15	12.91	13.03	12.79
Ratio of total capital before applying the effect of the transition	13.02	13.04	12.77	12.84	12.59
Ratio of common equity tier 1 required by the Supervisor of Banks	9.19	9.19	9.19	9.19	9.19
Ratio of common equity tier 1 over the required by the Supervisor of Banks	1.17	1.16	1.03	1.06	0.98
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	**435,632**	**430,278**	**427,263**	**412,180**	**410,083**
Leverage ratio (in %)	6.4	6.4	6.2	6.2	6.0
Leverage ratio before applying the effect of the transition	6.4	6.3	6.1	6.1	5.9
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	**77,636**	**72,531**	**74,252**	**79,444**	**79,544**
Total cash outflows	**57,111**	**53,923**	**54,085**	**60,884**	**63,464**
Liquidity coverage ratio (in %)	135.9	134.5	137.3	130.5	125.3
Net stable funding ratio according to Directives of the Supervisor of Banks					
Total Available Stable Funding (AFS)	**253,482**	**250,037**	**250,082**	**244,328**	**244,403**
Total required stable funding (RSF)	**209,853**	**203,821**	**200,434**	**195,706**	**201,347**
Net stable funding ratio (NFSR) in percentages	120.8	122.7	124.8	124.8	121.4

General background and general reporting principles

General background. The report presented below ("risk report") has been prepared according to the reporting directives of the Supervisor of Banks on "disclosure requirements detailed in the third Pillar of Basel and additional information on risks".
It is noted that the updated instruction has clearly defined the frequency of the quantitative and qualitative disclosure requirements. Whereas, a significant part of the disclosure requirements has been defined as disclosure required on an annual basis only, this report should be read together with the risk report published as part of the Annual Report for 2022, together with the Annual Report for 2022 and the Third Quarter of 2023 Report. For further details, see the Risks Report published as part of the Annual Report for 2022.
General reporting principles. Towards the publication of the first risk report, as part of the annual report for 2015, general reporting principles had been determined, that were validated and updated within the framework of the preparations for the implementation of the updated reporting directive, all subject to the reporting directives.

- The risk report is an integral part of the annual report, and respectively, the processes applying to the annual report shall apply to it (including: controls and procedures regarding internal control over financial reporting (SOX), statements by the President & CEO and the Chief Accounting Officer regarding the disclosure);
- In order to present an appropriate report and avoid repetition of details, it has been determined that the principal disclosure document in the risk management field would be the risk report. With respect to issues requiring disclosure in two of the documents – the extended disclosure shall be presented in the risk report while in the Chapter "Risk review" in the Board of Directors and Management report a very concise summary shall be presented, with reference to the risk report. With respect to issues that require specific disclosure relating to the "Risk review" Chapter – disclosure would generally be presented only in this chapter;
- The risk population to which the Bank relates will be in line with the risks identified and presented in the framework of the assessment of the capital adequacy (ICAAP);
- The disclosure will describe the principal activities of the Group and the significant risks, based on relevant data and information;
- The disclosures will include qualitative information and sufficient quantitative data on procedures of the Group for the identification, measurement and management of risks. The level of details given in the disclosures should be proportional;
- In order to assist users to understand in an optimal manner the Group's risk tolerance/risk appetite, the disclosure shall be flexible in a way that enables to reflect the manner in which senior Management and the Board of Directors assess and manage risk and strategy internally within the organization;
- A mechanism of a controlling nature has been established securing the appropriateness and relevancy of the disclosures included in the report, based on the work processes applied in the framework of assessment of the capital adequacy (ICAAP) and of the preparation of the quarterly risk document;
- Attention should be paid to especially material changes in data and to the study of the need to provide explanations for such changes.

Main developments in the first nine months of 2023

The "Iron Swards" War

General. The "Iron Swards" War broke out on October 7, 2023, following a surprise attack by the Hamas terror organization and its collaborators on the communities surrounding the Gaza Strip, during which the terror organization and its collaborators murdered 1,200 Israeli and foreign civilians taking hostage approx. 240 Israeli and foreign civilians. The surprise attack started under cover of a heavy barrage of rocket fire directed at the regions surrounding the Gaza Strip and additional areas. The attack was conducted as a massacre campaign against the civil population of the said region and included also infiltrating IDF bases, abduction of military personnel and civilians, including women, children and elderly persons as well as foreign civilians, while committing atrocities against humanity and war crimes, including the massacre of participants in a trance nature party held near Kibbutz Re'im.

Following the attack, the State of Israel entered into a national emergency situation and a state of war has been declared. Some 360 thousand reserve service personnel have been called for active service, the largest mobilization of the reserve force in the annals of the State.
In the days following the outbreak of the War, the terror organization Hezbollah and its collaborators initiated different events of aggression on the Northern border, both on the Lebanese and the Syrian borders (firing rockets, penetration attempts, launching of unmanned aerial vehicles (UAV) and more), developing into low-key conflicts. Following these events, tens of areas in the South and the North have been evacuated and over 100 thousand inhabitants have turned into refugees within their home country.
Workplaces have shut down; many workers were compelled to stay away from their workplaces, inter alia due to the shutdown of large parts of the education system and the reserve recruitment, and many other workers were put on unpaid leave.
The ground entry of the IDF forces into the Gaza Strip started on October 28, 2023, being part of a wide scope ground maneuver, which continues also presently, as well as missile rocket barrages fired at wide areas in Israel, both from the Gaza Strip and from across the northern border.
Preparations made by the Bank. The Bank's Board of Directors and Management, hold frequent discussions regarding the War situation and its implications upon different aspects of the Bank, including business continuity of the Bank's activity, preparedness of the Bank for different scenarios, as well as readiness for the "day after". Since the outbreak of the War, Management of the Bank directs its full managerial attention towards the War and its implications. Cross-organization work teams, headed by the Bank's President & CEO, managed the different layers of the Bank's operations under the crisis, while closely following developments and adopting measures for the reduction of the different risks and the maintenance of business continuity. The business divisions increased monitoring and control operations over the condition of the credit portfolio and of the financial assets portfolio of the Bank.
Concurrently, immediately following the outbreak of the War, the Bank has made preparations for the support of customers, suppliers, the community and employees.
Operations and business continuity. The Bank has been defined by the Government of Israel as an essential service provider for the economy, and as such, has maintained continuous operations, but in an emergency format, in accordance with the guidelines of the Home Front Command and the Banking Supervision Department.
The Bank has been working to ensure business continuity and to continue providing services to the Bank's customers, including in the conflict zones, through the Bank's branches, by increasing direct channel activity and dedicated lines for residents of the conflict zones, by providing banking services in the areas of evicted people through a mobile branch, and more. The Bank has adjusted its activity in accordance with the Home Front Command guidelines and is responding to risks through a large-scale transition to hybrid working, while allowing employees to work from home.
A rise in the level of risk. The challenges of the macro-economic environment including the effect of the War on the level of inflation, on the interest rate outline, the rate of exchange and the level of employment in the economy, may materially affect revenues and profitability of the banking system, leading to higher risk, with particular impact upon credit risk and business and market models risks.
The inherent risk in credit has risen to a high level. However, at this stage it is still too early to update the residual risk assessments that serve as the basis for assessing the risks presented in the risk factors table. The Group closely follows developments and exposure, including close monitoring of the development of exposures, inter alia, through the use of scenarios at different severity levels.
Credit risks. For details see "Credit Risks" in "Chapter "C" - Risks review" in the Third Quarter of 2023 Report. For details on debts, the terms of which have been changed subsequently to the date of the Report, see "Support of customers during the Iron Swards War period" in the Third Quarter of 2023 Report.
Interest and foreign currency risks. For details see "Market Risks" and "Inflation and exchange rate risk" in "Chapter "C" - Risks review" in the Third Quarter of 2023 Report.
Growth in credit losses. It is estimated by the Bank that the "Iron Swards" War will have an impact on the financial condition of borrowers and on their repayment ability, though uncertainty still exists regarding the length of the War period and its force, and respectively, regarding its impact upon the borrowers, as stated. On the background of the above stated, the Bank has decided to increase the collective allowance in the third quarter of 2023, in order to reflect the growth in the estimated credit losses for the period, in respect of borrowers harmed or may be harmed by the crisis, which as yet have not been identified (namely, borrowers, the information in respect of whom does not, at this stage, require the creation of a specific allowance for credit losses in their respect).

Expenses for credit losses in the amount of NIS 596 million were recognized in the third quarter of 2023, as compared to expenses of NIS 106 million in the corresponding period last year, an increase of 462.3%, and compared to expenses of NIS 312 million in the second quarter of 2023, an increase of 91.0%. This increase stems, mostly, from the implications of the War, and in particular from the increase in the collective allowance for credit losses.
See ”Credit loss expenses” in the section ”Developments in income and expenses ” in the Third Quarter of 2023 Report. Within the framework of this section, see, inter alia, details regarding ”work assumptions employed in determining the collective allowance” and details regarding ”sensitivity analyses”.
Capital adequacy, liquidity and leverage. The financial basis and the capital infrastructure of the Bank continue stability and are being strictly managed. The capital adequacy indices, liquidity ratio and the leverage ratio as of September 30, 2023, are adequate and exceed the minimum level required by directives of the Supervisor of Banks, exceeding also the internal goals set by the Bank's Board of Directors. In accordance with current data held by the Bank, there has been no substantive change in the liquidity ratio as of date proximate to the report's publication date. As assessed by the Bank, there has been no substantive change in capital adequacy and in the leverage ratio as of date proximate to the report's publication date.
Dividend distribution. For details regarding the decision of the Bank's Board of Directors on November 26, 2023 to distribute a dividend of 15% of the third quarter of 2023 profits (this, compared to a dividend at the rate of 30% of the profits for the second quarter of 2023), see “Dividends distribution” in the Third Quarter of 2023 Report.
Forward looking information. The Bank's estimates regarding the possible implications of the ”Iron Swards” War, comprise forward looking information, based upon the information existing in the hands of the Bank at date of preparation of this report. Such estimates may not materialize or may materialize in a different manner than that estimated by the Bank.
Customer support. In view of the security situation, immediately after the outbreak of the War, to Bank took action in order to assist customers in this difficult time. The Bank has approved a series of relief measures in the credit and financial solutions applying to all its customers in the household segment and small business segment, and specifically to customers who are residents of the conflict zone in the South, in the North and to different security forces.
Additionally, the Bank has formed a support and relief package for customers both within the framework of the outline published by the Bank of Israel, as well as within the framework of additional relief measures determined by the Bank in addition to the said outline and especially the extension of the outline period to 6 months, instead of 3 months in the Bank of Israel's outline. Inter alia, exceptionally, waiver was approved for six months of housing loan repayments (principal and interest) applying to the Bank's customers who are residents of the communities surrounding the Gaza Strip (0-7 km), increasing credit facilities for households and small businesses, designated loans, deferral of loan repayments, reduced fees and more. For additional details, see ”Support of customers during the Iron Swards War period” in the Third Quarter of 2023 Report.
Support for suppliers. Proximate to the outbreak of the War, the Bank has decided to advance payment dates to suppliers in respect of supplied products and rendered services, in order to support providers of services to the Bank.
Support for the community. Soon after the outbreak of the War the Bank and its employees came to the assistance of the community in general and to residents of the South in particular. A designated team was formed, composed of employees of the Human Resources and Strategy Divisions, to handle requests for assistance together with the different factors, as well as to direct contributions and volunteers to the different activities. Alongside the specific and immediate assistance provided to the different factors, the Bank has transferred significant contributions to the resilience centers in the communities surrounding the Gaza Strip, for hospitals, for their communities, for IDF units that the Bank has adopted, and for others. In addition, the Bank has funded hotel rooms in central Israel for families that had been evacuated from the South.
Alongside the financial assistance provided by the Bank, employees of the Bank volunteered for different and various voluntary activities. For additional details, see ”Support of the community during the Iron Swards War period” in the Third Quarter of 2023 Report.
The central support project is the establishment of the ”Keren Or” Foundation – designated to assist children and youth of the conflict zone harmed during the War. The Foundation, established by Discount Bank and MDB, will have a capital of NIS 50 million, and will operate to provide a wide scope and long-range holistic response to the needs of children and youth, recuperating their young bodies and souls, with a view of recovering their personal and communal sense of security. For additional details, see ”Support of the community during the Iron Swards War period” in the Third Quarter of 2023 Report.

Support for employees. A human resources center and a supporting welfare team of the Bank, which includes social workers, has been put at the disposal of Bank employees and their families. Managers at the Bank have extensive judgment in employing, during these difficult War days, a comprehensive and enveloping policy, particularly as regards aspects of physical presence at the premises of the Bank. Including in the above, allowing work from home to all employees in the conflict zones, employees having small children and more. Moreover, Managers had been given authority to consider full payment of salary to those employees who, due to circumstances, were unable to work even from their home. The Bank has also assisted families of employees residing in the communities surrounding the Gaza Strip by funding hotel rooms for them in central Israel.
The total cost of supporting Discount's customers and supporting community commitments is estimated at approx. NIS 340-350 million (for details of the assumptions used in the estimate and of forward-looking information aspects, "Support of customers during the Iron Swards War period" in the Third Quarter of 2023 Report).

Issue of debt instruments within the framework of an international private placement

On January 26, 2023, the Bank completed an international private placement of US dollar bonds, being the first in its history, in a principal amount of US$800 million ("the bonds"), which were issued to institutional investors, within the meaning of the term in the Articles of the Tel Aviv Stock Exchange Ltd. ("the Stock Exchange" and "the issue", respectively).
The bonds were issued at a price of 99.935% of their par value. The gross proceeds of the issue amounted to US$799.48 million. The issue price comprises a margin of 190 basis points over that of US government bonds of an identical average period to maturity.
The bonds have been registered for trading on the "TASE-UP" system of the Stock Exchange.

Additional issuances

Issue of subordinate debt notes having a loss absorption mechanism (Coco). On June 15, 2023, the Bank, through Manpikim, completed an issue of subordinate debt notes having a loss absorption mechanism (expansion of Series "I"), in a total amount of approx. NIS 385 million, at an effective margin of 2.66%.
Issue of bonds. On June 15, 2023, the Bank, through Manpikim, completed an issue of bonds (expansion of Series "O"), in a total amount of approx. NIS 1,568 million, at a margin of 0.98% over Government bonds.
IDB Bank. For details regarding proceedings concerning certain matters relating to IDB Bank's compliance plan, see "Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations" in section "International Operations Segment - Additional Details" in the Second Quarter of 2023 Report.

The banking corporation's approach to risk management

For details see in the Risks Report, which was published as part of the 2022 Annual Report (pp. 6-16).
For details on the Risk profile of the Discount Group and for details on Risk Factors Table, see in the Chapter C to the Directors and Management Report - "Risks review" in the 2022 Annual Report (pp. 63-64, 109-112).

Material leading and developing risks

The Bank considers macro environment risk, business model risks, cyber and data protection risks, model risks and environment and climate risk, as the most significant developing leading risks. For additional details see in the Risks Report, which was published as part of the 2022 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 16-17) and in the Third Quarter of 2023 Report.

Weighted risk assets review (OV1)

	Weighted risk assets		Minimum Capital requirements
	30.09.2023	30.06.2023	30.09.2023
	In NIS millions		
Credit risk – standardised approach	230,636	226,635	28,830
Counterparty credit risk (standardised approach)	6,771	6,027	846
Credit valuation adjustment (CVA)	2,514	2,430	314
Securitization exposure (standardised approach)	351	324	44
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	5,953	5,727	744
Total credit risk	246,225	241,143	30,778
Market risk (standardised approach)	5,079	5,200	635
Operational risk	19,601	18,884	2,450
Total	**270,905**	**265,227**	**33,863**

Disclosure on the linkage between the balance sheet and the regulatory capital components

For details on the required adjustments between the balance sheet in the published financial statements and the regulatory capital components, see the Risks Report, which was published as part of the 2022 Annual Report (pp. 115-124).

Additional information on risk exposure and its assessment that is not included in the Third Pillar disclosure requirements

For details on the summary of movement and changes in risk-weighted assets and on the linkage between the weighted risk assets and the business transactions and the related risks, according to the Bank's regulatory operating segments, see the Risks Report, which was published as part of the 2022 Annual Report (p. 18).

Capital and leverage

Composition of the capital

Capital components for calculating ratio of capital

	September 30,		December 31,
	2023	2022	2022
	In NIS millions		
A. Common Equity Tier 1			
Common equity	28,391	24,718	25,478
Difference between common equity and common equity tier 1	(398)	(233)	(262)
Total common equity tier 1 before supervisory adjustments and deductions	**27,993**	**24,485**	**25,216**
Supervisory adjustments and deductions			
Goodwill and other intangible assets	162	163	175
Supervisory adjustments and other deductions	21	29	25
Total supervisory adjustments and deductions before effect of adjustments for the efficiency plan and before effect of adjustment for expected credit losses	**183**	**192**	**200**
Total adjustments in respect to the efficiency plan	138	225	202
Total adjustments for expected credit losses	117	135	135
Total common equity tier 1 after supervisory adjustments and deductions	**28,065**	**24,653**	**25,353**
B. Additional tier 1 capital			
Additional tier 1 capital before supervisory adjustments and deductions	-	-	-
Total additional tier 1 capital after supervisory adjustments and deductions	**-**	**-**	**-**
C. Tier 2 capital			
Instruments before deductions	4,311	3,483	3,942
Allowance for credit losses before deductions	3,078	2,777	2,839
Minority interests in a subsidiary	109	100	97
Total tier 2 capital before deductions	7,498	6,360	6,878
Deductions	-	-	-
Total tier 2 capital	**7,498**	**6,360**	**6,878**

For details on the connection between the balance sheet and the components of the regulatory capital, see the Risks Report, which was published as part of the 2022 Annual Report (pp. 118-124).

Capital adequacy

For details on "Evaluation of capital adequacy" as well as "Capital planning process", see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review as stated (pp. 22-25).

Leverage ratio

General. The leverage ratio is defined as the capital measurement divided by the exposure measurement. The capital for the purpose of this measurement is the common equity tier 1. The exposure measurement is the sum of the balance-sheet exposures, the exposures to derivatives, the exposures to securities funding transactions and off-balance-sheet items (for details on the factors which may affect the leverage ratio, see Note 25 item 2 to the financial statements as of December 31, 2022, p. 231.

Comparison between Balance sheet assets and the measurement of exposure for the purpose of the leverage ratio (LR1)

	September 30,		December 31,
	2023	2022	2022
	In NIS millions		
Total assets according to the consolidated financial statements	399,202	379,074	376,754
Adjustment for investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes	-	-	-
Adjustments for trusteeship assets recognized in the balance sheet according to the Reporting to the Public Directives, but not included in the measurement of exposure of the leverage ratio	-	-	-
Adjustments for derivative financial instruments	(5,064)	(4,956)	(2,597)
Adjustments for SFTs	-	-	-
Adjustments for off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	38,751	34,048	35,607
Other adjustments	2,743	1,917	2,416
Exposure for the purpose of the leverage ratio	**435,632**	**410,083**	**412,180**

Disclosure of the leverage ratio (LR2)

	September 30,		December 31,
	2023	2022	2022
	In NIS millions		
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	382,037	361,870	362,878
Asset amounts deducted in determining Tier 1 capital	(180)	(182)	(195)
Total balance sheet exposures (excluding derivatives and SFTs)	**381,857**	**361,688**	**362,683**
Derivative exposures [2]			
Replacement cost associated with all derivatives transactions	5,060	4,718	4,837
Add-on amounts for PFE associated with all derivatives transactions	4,730	3,927	3,986
Gross-up for derivatives collateral provided which where deducted from the balance sheet assets pursuant to the Reporting to the Public Directives	-	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	-	-	-
Exempted CCP leg of client-cleared trade exposures	-	-	-
Adjusted effective notional amount of written credit derivatives	-	-	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-	-
Total derivative exposures	**9,790**	**8,645**	**8,823**
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	5,234	5,702	5,067
Netted amounts of cash payables and cash receivables of gross SFT assets	-	-	-
Credit risk exposure of a counterparty for SFT assets	-	-	-
Agent transaction exposures	-	-	-
Total securities financing transaction exposures	**5,234**	**5,702**	**5,067**
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	149,986	135,086	138,814
Adjustments for conversion to credit equivalent amounts	(111,235)	(101,038)	(103,207)
Total off-balance sheet items	**38,751**	**34,048**	**35,607**
Capital and total exposures			
Tier 1 capital	(1)28,065	(1)24,653	(1)25,353
Total exposures	435,632	410,083	412,180
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.4	6.0	6.2

Footnotes:

(1) The Tier I capital and the total exposure are presented after the relief granted by the Supervisor of Banks for the efficiency plans.

(2) The amounts of exchange costs and the addition in respect of the future potential exposure multiplied by the Alpha coefficient used for the computation of the regulatory exposure at default (EAD), according to the standardised approach to counterparty credit risk (SA-CCR).

Credit Risk

General. Credit risk is the risk of material impairment to the value of the Group and its ability to attain its goals as a result of deterioration in the ability of a borrower or counterparty to honor their obligations towards the Bank, in whole or in part.

For general information on credit risk quality (CRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 28-35) and in the Third Quarter of 2023 Report.

Credit risk by economic sectors

Presented below are data on credit risk by economic sectors.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis

	September 30, 2023										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Of which:Credit Performance Rating[10]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Of which:Non-accruing credit risk	Periodic Credit Loss Expenses	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,761	1,705	25	31	1,758	1,456	25	3	12	3	39
Mining & Quarrying	810	797	–	13	809	406	–		(1)	–	6
Industry	18,867	17,991	613	263	18,235	10,104	607	91	77	9	298
Construction and Real Estate - Construction	[6]54,003	52,243	1,129	631	[6]53,982	25,841	1,129	822	175	16	653
Construction and Real Estate - Real Estate Activity	17,186	16,783	309	94	17,015	14,494	309	233	83	20	411
Electricity and Water	7,175	7,122	33	20	6,472	4,377	33	8	3	4	103
Commerce	29,795	28,346	816	633	29,577	24,437	810	154	177	46	462
Hotels, Hotel Services and Food	2,168	1,976	143	49	2,087	1,800	143	37	2	(1)	46
Transportation and Storage	7,759	7,533	129	97	7,582	5,514	129	80	22	24	126
Communication and Computer Services	3,010	2,825	97	88	2,959	2,003	97	86	47	3	94
Financial Services	31,356	31,204	23	129	26,139	16,555	23	22	62	(4)	160
Other Business Services	8,732	8,219	90	423	8,699	6,080	90	23	28	7	168
Public and Community Services	11,969	11,516	350	103	11,964	10,463	349	64	13	3	182
Total Commercial	**194,591**	**188,260**	**3,757**	**2,574**	**187,278**	**123,530**	**3,744**	**1,623**	**700**	**130**	**2,748**
Private Individuals - Housing Loans	75,256	74,562	337	357	75,256	68,580	337	243	36	2	306
Private Individuals - Other	76,797	73,452	633	2,712	76,792	33,998	633	183	273	164	958
Total Public	**346,644**	**336,274**	**4,727**	**5,643**	**339,326**	**226,108**	**4,714**	**2,049**	**1,009**	**296**	**4,012**
Banks in Israel	4,356	4,356	–	–	3,526	3,518	–	–	1	–	2
Israeli Government	34,053	34,053	–	–	1,330	1,330	–	–	–	–	–
Total Lending Activity in Israel	**385,053**	**374,683**	**4,727**	**5,643**	**344,182**	**230,956**	**4,714**	**2,049**	**1,010**	**296**	**4,014**

For footnotes see next page

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	September 30, 2023										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Of which: Credit Performance Rating[10]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Of which: Non-accruing credit risk	Periodic Credit Loss Expenses	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	128	8	-	120	128	128	-	-	4	-	5
Mining & Quarrying	248	248	-	-	-	-	-	-	-	-	-
Industry	6,368	5,837	140	391	5,873	3,405	140	21	(2)	(3)	50
Construction and Real Estate - Construction	246	231	-	15	246	74	-	-	1	-	3
Construction and Real Estate - Real Estate Activity	16,132	12,513	1,899	1,720	15,991	13,575	1,863	75	85	(7)	231
Electricity and Water	694	694	-	-	381	287	-	-	-	-	3
Commerce	12,274	10,508	1,089	677	12,145	7,713	1,089	6	11	-	97
Hotels, Hotel Services and Food	1,884	1,503	331	50	1,862	1,799	331	47	1	-	9
Transportation and Storage	521	451	-	70	364	343	-	-	(2)	-	7
Communication and Computer Services	712	603	108	1	557	478	108	3	3	-	14
Financial Services	13,067	12,956	-	111	2,535	1,591	-	-	4	-	26
Of which: Federal agencies in the U.S. [7]	8,465	8,465	-	-	-	-	-	-	-	-	-
Other Business Services	993	861	66	66	853	611	66	-	5	-	18
Public and Community Services[8]	5,475	4,196	772	507	5,010	4,752	769	40	-	-	43
Total Commercial	**58,742**	**50,609**	**4,405**	**3,728**	**45,945**	**34,756**	**4,366**	**192**	**110**	**(10)**	**506**
Private Individuals - Housing Loans	465	461	-	4	465	452	-	-	(9)	-	6
Private Individuals - Other	2,157	2,018	86	53	2,154	1,147	86	-	-	-	5
Total Public	**61,364**	**53,088**	**4,491**	**3,785**	**48,564**	**36,355**	**4,452**	**192**	**101**	**(10)**	**517**
Banks Outside of Israel	5,038	5,038	-	-	3,281	3,161	-	-	-	1	5
Governments Outside of Israel	8,657	8,657	-	-	2,898	2,004	-	-	1	-	25
Total Lending Activity Outside of Israel	**75,059**	**66,783**	**4,491**	**3,785**	**54,743**	**41,520**	**4,452**	**192**	**102**	**(9)**	**547**
Total	**460,112**	**441,466**	**9,218**	**9,428**	**398,925**	**272,476**	**9,166**	**2,241**	**1,112**	**287**	**4,561**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets for derivative instruments, and credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 272,476 million, NIS 50,387 million, NIS 1,150 million, NIS 2,699 million, NIS 133,400 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets for Maof Market operations.

(3) Credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding for derivative instruments.

(4) Including for off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet, credit risk, which is non-accruing, substandard or under special mention.

(6) Including acquisition groups in an amount of NIS 428 million.

(7) Including mortgage backed securities in the amount of NIS 8,238 million, issued by GNMA and in the amount of NIS 227 million, issued by FNMA and FHLMC.

(8) Including mainly municipal bonds and bonds of states in the U.S.

(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 10,765 million.

(10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit according to the Bank's policy.

(11) The balance of commercial debts includes housing loans in the amount of NIS 112 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	September 30, 2022										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9][12]	Of which: Credit Performance Rating[10][12]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Of which: Non-accruing credit risk	Periodic Credit Loss Expenses (expenses release)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,631	1,571	17	43	1,627	1,347	17	7	-	2	29
Mining & Quarrying	373	372	-	1	373	284	-	1	(4)	(2)	7
Industry	16,461	15,685	472	304	15,975	9,231	472	184	(7)	14	265
Construction and Real Estate - Construction	[6]46,950	45,942	562	446	[6]46,935	21,609	562	289	112	10	466
Construction and Real Estate - Real Estate Activity	16,296	15,737	348	211	16,232	14,478	347	212	56	2	320
Electricity and Water	5,964	5,948	12	4	5,195	3,680	12	-	23	-	95
Commerce	25,137	24,004	444	689	24,748	20,015	443	130	(49)	21	298
Hotels, Hotel Services and Food	2,159	1,966	121	72	2,146	1,802	121	14	(21)	(1)	40
Transportation and Storage	6,885	6,451	298	136	6,665	5,490	298	117	(21)	4	123
Communication and Computer Services	2,806	2,484	85	237	2,688	1,671	85	46	8	1	46
Financial Services	22,793	22,425	48	320	18,950	13,799	48	26	(13)	-	107
Other Business Services	8,556	7,945	157	454	8,523	6,081	157	44	(27)	23	155
Public and Community Services	11,625	11,074	338	213	11,614	10,121	338	6	38	(2)	140
Total Commercial	**167,636**	**161,604**	**2,902**	**3,130**	**161,671**	**109,608**	**2,900**	**1,076**	**95**	**72**	**2,091**
Private Individuals - Housing Loans	72,174	[12]71,383	306	[12]485	72,174	63,036	306	233	45	7	254
Private Individuals - Other	73,195	70,638	449	2,108	73,188	32,397	449	76	129	69	828
Total Public	**313,005**	**303,625**	**3,657**	**5,723**	**307,033**	**205,041**	**3,655**	**1,385**	**269**	**148**	**3,173**
Banks in Israel	3,037	3,037	-	-	2,248	2,219	-	-	-	-	1
Israeli Government	25,771	25,771	-	-	980	980	-	-	-	-	-
Total Lending Activity in Israel	**341,813**	**332,433**	**3,657**	**5,723**	**310,261**	**208,240**	**3,655**	**1,385**	**269**	**148**	**3,174**

For footnotes see next page

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	September 30, 2022										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9][12]	Of which: Credit Performance Rating[10][12]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Of which: Non-accruing credit risk	Periodic Credit Loss Expenses (expenses release)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	144	39	-	105	144	122	-	-	-	-	1
Mining & Quarrying	338	338	-	-	-	-	-	-	-	-	-
Industry	5,865	5,519	210	136	5,413	3,605	210	39	(1)	22	37
Construction and Real Estate - Construction	198	198	-	-	198	64	-	-	-	-	1
Construction and Real Estate - Real Estate Activity	14,083	12,599	560	924	13,916	11,715	559	27	(49)	(53)	113
Electricity and Water	785	785	-	-	428	310	-	-	(3)	-	4
Commerce	10,840	9,986	404	450	10,831	8,295	403	2	6	2	83
Hotels, Hotel Services and Food	1,992	1,324	531	137	1,979	1,908	528	79	(31)	-	11
Transportation and Storage	1,000	1,000	-	-	809	783	-	-	(9)	-	12
Communication and Computer Services	327	271	56	-	257	191	56	3	1	-	3
Financial Services	11,199	11,112	-	87	2,219	1,501	-	-	(2)	-	23
Of which: Federal agencies in the U.S.[7]	7,389	7,389	-	-	-	-	-	-	-	-	-
Other Business Services	1,003	934	68	1	891	558	68	-	1	-	13
Public and Community Services[8]	4,991	4,039	377	575	4,529	4,218	374	-	(8)	-	41
Total Commercial	**52,765**	**48,144**	**2,206**	**2,415**	**41,614**	**33,270**	**2,198**	**150**	**(95)**	**(29)**	**342**
Private Individuals - Housing Loans	407	400	-	7	407	405	-	-	1	-	12
Private Individuals - Other	2,101	1,975	48	78	2,095	1,316	48	-	-	-	6
Total Public	**55,273**	**50,519**	**2,254**	**2,500**	**44,116**	**34,991**	**2,246**	**150**	**(94)**	**(29)**	**360**
Banks Outside of Israel	6,354	6,354	-	-	3,657	3,560	-	-	-	-	6
Governments Outside of Israel	8,219	8,219	-	-	2,444	1,620	-	-	2	-	26
Total Lending Activity Outside of Israel	**69,846**	**65,092**	**2,254**	**2,500**	**50,217**	**40,171**	**2,246**	**150**	**(92)**	**(29)**	**392**
Total	**411,659**	**397,525**	**5,911**	**8,223**	**360,478**	**248,411**	**5,901**	**1,535**	**177**	**119**	**3,566**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets for derivative instruments, and credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 248,411 million, NIS 40,749 million, NIS 1,271 million, NIS 4,806 million, NIS 116,422 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets for Maof Market operations.

(3) Credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding for derivative instruments.

(4) Including for off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet, credit risk, which is non-accruing, substandard or under special mention.

(6) Including acquisition groups in an amount of NIS 441 million.

(7) Including mortgage backed securities in the amount of NIS 7,141 million, issued by GNMA and in the amount of NIS 250 million, issued by FNMA and FHLMC.

(8) Including mainly municipal bonds and bonds of states in the U.S.

(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 9,101 million.

(10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit according to the Bank's policy.

(11) The balance of commercial debts includes housing loans in the amount of NIS 202 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(12) Reclassified - following improvement of data.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2022										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9][12]	Of which: Credit Performance Rating[10][12]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Of which: Non-accruing credit risk	Periodic Credit Loss Expenses (expenses release)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,673	1,583	20	70	1,671	1,390	20	8	-	2	29
Mining & Quarrying	393	392	-	1	392	299	-	-	(3)	(2)	7
Industry	17,150	16,350	489	311	16,733	9,566	488	176	31	58	256
Construction and Real Estate - Construction	[6]49,160	47,713	1,219	228	[6]49,139	22,853	1,219	278	153	24	493
Construction and Real Estate - Real Estate Activity	16,195	15,681	362	152	16,115	14,049	343	219	61	2	325
Electricity and Water	6,919	6,890	13	16	6,130	3,844	13	-	31	-	104
Commerce	27,091	26,073	490	528	26,867	21,446	487	119	(42)	9	316
Hotels, Hotel Services and Food	2,135	1,964	114	57	2,094	1,785	114	12	(19)	(1)	43
Transportation and Storage	6,856	6,453	271	132	6,679	5,505	271	113	(16)	5	128
Communication and Computer Services	2,689	2,505	99	85	2,652	1,705	99	49	12	-	51
Financial Services	25,399	24,950	5	444	20,936	14,144	5	1	(4)	21	94
Other Business Services	8,572	7,974	142	456	8,550	6,047	142	28	(14)	45	145
Public and Community Services	11,757	11,173	484	100	11,747	10,193	484	130	69	(3)	172
Total Commercial	**175,989**	**169,701**	**3,708**	**2,580**	**169,705**	**112,826**	**3,685**	**1,133**	**259**	**160**	**2,163**
Private Individuals - Housing Loans	73,227	72,267	313	[12]647	73,227	64,891	313	229	61	5	271
Private Individuals - Other	72,936	70,216	481	2,239	72,932	32,866	481	81	163	115	818
Total Public	**322,152**	**312,184**	**4,502**	**5,466**	**315,864**	**210,583**	**4,479**	**1,443**	**483**	**280**	**3,252**
Banks in Israel	2,634	2,634	-	-	1,512	1,482	-	-	-	-	1
Israeli Government	27,275	27,275	-	-	912	912	-	-	-	-	-
Total Lending Activity in Israel	**352,061**	**342,093**	**4,502**	**5,466**	**318,288**	**212,977**	**4,479**	**1,443**	**483**	**280**	**3,253**

For footnotes see next page

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2022										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9][12]	Of which: Credit Performance Rating[10][12]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Of which: Non-accruing credit risk	Periodic Credit Loss Expenses (expenses release)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	122	122	-	-	122	118	-	-	(1)	-	1
Mining & Quarrying	309	309	-	-	-	-	-	-	-	-	-
Industry	5,754	5,394	250	110	5,493	3,421	250	34	6	23	47
Construction and Real Estate - Construction	211	208	-	3	211	69	-	-	-	-	1
Construction and Real Estate - Real Estate Activity	14,312	12,315	999	998	14,191	12,344	997	26	(36)	(60)	133
Electricity and Water	781	781	-	-	417	315	-	-	(3)	-	4
Commerce	10,907	10,285	441	181	10,843	7,523	439	-	9	8	79
Hotels, Hotel Services and Food	1,707	1,140	352	215	1,680	1,612	350	58	(34)	-	8
Transportation and Storage	578	578	-	-	428	407	-	-	(13)	-	8
Communication and Computer Services	532	494	38	-	444	360	38	3	7	-	10
Financial Services	10,569	10,555	-	14	1,966	1,294	-	-	(4)	-	20
Of which: Federal agencies in the U.S.[7]	6,963	6,963	-	-	-	-	-	-	-	-	-
Other Business Services	860	719	72	69	624	422	72	-	1	-	12
Public and Community Services[8]	4,954	3,913	514	527	4,475	4,151	511	8	(9)	-	39
Total Commercial	**51,596**	**46,813**	**2,666**	**2,117**	**40,894**	**32,036**	**2,657**	**129**	**(77)**	**(29)**	**362**
Private Individuals - Housing Loans	447	435	-	12	447	434	-	-	2	-	14
Private Individuals - Other	2,020	1,882	48	90	2,016	1,235	48	-	(1)	-	3
Total Public	**54,063**	**49,130**	**2,714**	**2,219**	**43,357**	**33,705**	**2,705**	**129**	**(76)**	**(29)**	**379**
Banks Outside of Israel	4,502	4,502	-	-	2,745	2,644	-	-	-	-	5
Governments Outside of Israel	8,780	8,780	-	-	2,473	1,710	-	-	-	-	25
Total Lending Activity Outside of Israel	**67,345**	**62,412**	**2,714**	**2,219**	**48,575**	**38,059**	**2,705**	**129**	**(76)**	**(29)**	**409**
Total	**419,406**	**404,505**	**7,216**	**7,685**	**366,863**	**251,036**	**7,184**	**1,572**	**407**	**251**	**3,662**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets for derivative instruments, and credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 251,036 million, NIS 43,001 million, NIS 857 million, NIS 2,363 million, NIS 122,149 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets for Maof Market operations.

(3) Credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding for derivative instruments.

(4) Including for off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including for housing loans, for which an allowance is made according to the extent af arrears, and housing loans for which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Including acquisition groups in an amount of NIS 519 million.

(7) Including mortgage backed securities in the amount of NIS 6,724 million, issued by GNMA and in the amount of NIS 239 million, issued by FNMA and FHLMC.

(8) Including mainly municipal bonds and bonds of states in the U.S.

(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 9,407 million.

(10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit according to the Bank's policy of the Bank.

(11) The balance of commercial debts includes housing loans in the amount of NIS 218 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(12) Reclassified - following improvement of data.

Credit Exposure to Foreign Financial Institutions

About 98% of the exposure as of September 30, 2023, is to financial institutions rated "A-"rating or higher, similar to December 31, 2022. For additional details, see the Report for the third quarter of 2023.

Drafts and Instructions published during the first nine months of 2023

High risk transactions for the purchase of land. An update of a Q&A file was published on January 23, 2023, for the implementation of Proper Conduct of Banking Business Directive dealing with capital adequacy requirements: following entry into effect of higher capital requirements in respect of high risk transactions for the purchase of land, the need had arisen for clarification relating to the manner of calculating the financing ratio, pursuant to which, a rise in the financing rate above the 80% threshold with respect to loans intended to purchase land for development or construction purposes, which is due to interest accrued through December 31, 2023 as a result of a "grace period" granted after October 7, 2023, will not be brought into the calculation of the financing rate.

Adopting consumer measures in a changing financial environment. On February 26, 2023, the Supervisor of Banks published a letter regarding adoption of consumer measures in a changing financial environment, in which it is stated that banking corporations are expected to adopt different measures for the monitoring of borrowers wishing to prepare for situations of possible difficulty in the monthly repayment of their debt, and invite them to examine different ways of mitigating their cash flow situation, as well as continue to study alternatives relating to the customer's compliance with the monthly repayments, all while providing a suitable, timely and professional response to the customer's approach and needs, while focusing on singular characteristics of the different population groups and on the different channels and languages by which the service is provided.

Financial Stability Report for the first half of 2023

On August 2, 2023, the Bank of Israel published the said Report, the principal items of which are: The local financial system remained stable. The uncertainty concerning the legislation amendments has increased the risk premium of the economy, which was accompanied by a devaluation of the exchange rate which contributed to inflation, by a decline in prices of shares and by increased fluctuation in the foreign currency market and in the financial markets. The security buffers accumulated by households and corporations strengthened their durability in facing potential turbulence. The financial system in the economy has been affected by two main factors: one, the continuing monetary tightening and the slowing down of economic growth in Israel and globally; and the other, the effect of the uncertainty surrounding the implications of legislation amendments relating to the legal system in Israel upon the performance of the economy and on the financial system as a whole. The Bank of Israel estimates that if these processes – in Israel and globally – intensify, they may challenge the system in the medium range. The required monetary tightening due to the continuing inflation and the slowing down of economic growth were reflected in the rising risk indices – and with them in pricing – in the real estate market and in the financial markets, and by an increase in credit costs. On this background, households and businesses are facing the increased burden of servicing debts. Despite the growing amount of the monthly repayment of debts, the repayment ability of households – principally respecting housing loans - remained high. Notwithstanding the above, consumer credit originating outside the banking system, recorded a certain increase in the rate of arrears. In the business credit, risk indicators increased with respect to the construction and real estate sectors, to which the financial system is particularly exposed. No deterioration is noticed in the other economic sectors.

Credit risk management – written opinion of the risk management function. On November 7, 2023, the Banking Supervision Department issued a circular that updates the definition of "significant credit exposure" in section 44 of Proper Conduct of Banking Business Directive No. 311, so that the threshold criterion for the Risk Manager's intervention in credit exposure is NIS 50 million or 1% of the bank's capital (whichever is the lower) instead of NIS 25 million, this with the purpose of making the Risk Manager's work more efficient and to allow him to focus on the analysis of credit with a higher scope and risk. The banking corporation will be entitled to set the threshold at the existing NIS 25 million, as prescribed in the current wording, even if it exceeds 1% of Common Equity Tier 1.

Credit risk management – extension of period for receiving an updated financial report. On October 31, 2023, the Banking Supervision Department issued a Provisional Instruction extending the period during which a financial report will be considered updated, by three months, that is, to a total of twelve months from the date of the financial report, in light of the "Iron Swords" war and the damage to the functioning of the economy. This extension will apply irrespective of whether the updated report is in a format determined by the banking corporation or in financial report format.

The credit quality of credit exposures (CR1)

Credit quality of credit exposure

	Gross balances		Allowances for credit losses or impairment in value	
	Non-accruing debts or in arrears for 90 days or over	Other		Net balance
	in NIS millions			
	September 30, 2023			
Debts, excluding bonds	2,339	266,038	4,044	264,333
Bonds	-	42,059	-	42,059
Off-balance sheet exposure	32	143,236	500	142,768
Total	**2,371**	**451,333**	**4,544**	**449,160**
	September 30, 2022			
Debts, excluding bonds	1,598	242,286	3,172	240,712
Bonds	1	38,026	-	38,027
Off-balance sheet exposure	46	130,198	384	129,860
Total	**1,645**	**410,510**	**3,556**	**408,599**
	December 31, 2022			
Debts, excluding bonds	1,508	245,304	3,216	243,596
Bonds	1	39,333	-	39,334
Off-balance sheet exposure	52	132,440	424	132,068
Total	**1,561**	**417,077**	**3,640**	**414,998**

For details on changes in the balance of non-accruing debts and in the balance of restructured troubled debts (CR2) and for the additional disclosure on the credit quality of credit exposures (CRB), see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (p. 36).

Qualitative disclosure requirements on credit risk mitigation techniques (CRC)

For details on credit risk mitigation and mitigating the risk for credit concentration, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 47-48).

Credit risk mitigation techniques – Review (CR3)

Methods for credit risk mitigation - Quantitative disclosure

	Unsecured	Secured							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount
	in NIS millions								
	September 30, 2023								
Debts, excluding bonds	220,375	43,990	17,997	34,555	8,562	9,435	9,435	-	-
Bonds	42,059	-	-	-	-	-	-	-	-
Total	**262,402**	**43,990**	**17,997**	**34,555**	**8,562**	**9,435**	**9,435**	**-**	**-**
Of which: non-accruing debts or in arrears for 90 days or over	2,493	1,985	1,358	160	39	1,825	1,319		
	September 30, 2022								
Debts, excluding bonds	197,420	43,292	16,682	36,185	9,575	7,107	7,107	-	-
Bonds	38,027	-	-	-	-	-	-	-	-
Total	**235,447**	**43,292**	**16,682**	**36,185**	**9,575**	**7,107**	**7,107**	**-**	**-**
Of which: non-accruing debts or in arrears for 90 days or over	1,170	805	366	196	24	609	342		
	December 31, 2022								
Debts, excluding bonds	200,019	43,577	18,592	34,814	9,829	8,763	8,763	-	-
Bonds	39,334	-	-	-	-	-	-	-	-
Total	**239,353**	**43,577**	**18,592**	**34,814**	**9,829**	**8,763**	**8,763**	**-**	**-**
Of which: non-accruing debts or in arrears for 90 days or over	1,623	1,104	632	189	27	915	605		

Standardized approach – exposures by asset classes and risk weights (CR5)

Exposures according to classes of assets and risk weights

	0%	20%	35%	50%	60%	75%	100%	150%	Total amount of credit exposure (after CCF and CRM)
	in NIS millions								
	September 30, 2023								
Sovereigns, their central banks and national monetary authority	89,319	36	–	–	–	–	224	40	89,619
Public sector entities (PSE) which are not central governments	2,035	8,738	–	1,437	–	–	6	–	12,216
Banks (including multilateral development banks)	–	12,603	–	91	–	–	22	–	12,716
Securities corporations	–	609	–	–	–	–	–	–	609
Corporations	–	11,506	–	6,611	–	–	85,495	1,505	105,117
Retail exposures for private individuals	–	–	–	–	–	35,310	121	–	35,431
Loans to small businesses	–	–	–	–	–	15,150	32	–	15,182
Secured by residential property	–	–	16,683	22,178	21,844	7,862	1,278	–	69,845
Secured by commercial real estate	–	–	–	–	–	–	42,650	–	42,650
Loans in arrears	–	–	–	–	–	–	502	1,801	2,303
Other assets	2,444	–	–	–	–	–	8,346	1,602	12,392
Of which: for shares	–	–	–	–	–	–	733	1,168	1,901
Total	**93,798**	**33,492**	**16,683**	**30,317**	**21,844**	**58,322**	**138,676**	**4,948**	**398,080**
	September 30, 2022								
Sovereigns, their central banks and national monetary authority	100,282	13	–	–	–	–	113	220	100,628
Public sector entities (PSE) which are not central governments	1,705	8,215	–	1,451	–	–	57	–	11,428
Banks (including multilateral development banks)	–	9,794	–	80	–	–	42	–	9,916
Securities corporations	–	529	–	–	–	–	–	–	529
Corporations	–	13,278	–	870	–	–	(1)71,430	1,158	125,021
Retail exposures for private individuals	–	–	–	–	–	33,902	324	–	34,226
Loans to small businesses	–	–	–	–	–	14,468	24	–	14,492
Secured by residential property	–	–	15,888	20,744	18,438	8,195	1,249	–	64,514
Secured by commercial real estate	–	–	–	–	–	–	(1)42,942	–	4,657
Loans in arrears	–	–	–	–	–	–	545	1,193	1,738
Other assets	2,116	37	–	–	–	–	7,648	1,538	11,339
Of which: in respect of shares	–	–	–	–	–	–	751	1,124	1,875
Total	**104,103**	**31,866**	**15,888**	**23,145**	**18,438**	**56,565**	**124,374**	**4,109**	**378,488**
	December 31, 2022								
Sovereigns, their central banks and national monetary authority	97,390	52	–	–	–	–	232	120	97,794
Public sector entities (PSE) which are not central governments	1,756	8,242	–	1,419	–	–	71	–	11,488
Banks (including multilateral development banks)	–	7,925	–	73	–	–	51	–	8,049
Securities corporations	–	626	–	–	–	–	–	–	626
Corporations	–	10,106	–	5,988	–	–	(1)72,127	1,348	89,570
Retail exposures for private individuals	–	–	–	–	–	34,208	142	–	34,350
Loans to small businesses	–	–	–	–	–	14,415	15	–	14,430
Secured by residential property	–	–	16,174	21,297	19,630	8,066	1,234	–	66,401
Secured by commercial real estate	–	–	–	–	–	–	(1)44,590	–	44,590
Loans in arrears	–	–	–	–	–	–	445	1,790	2,235
Other assets	1,864	37	–	–	–	–	7,319	1,590	10,810
Of which: for shares	–	–	–	–	–	–	612	1,142	1,754
Total	**101,010**	**26,988**	**16,174**	**28,777**	**19,630**	**56,689**	**126,226**	**4,848**	**380,343**

Footnote:
(1) Following examination of the definition of the commercial real estate segment, starting with the interim financial statements as of June 30, 2023, amounts have been classified from the corporations segment to the commercial real estate segment. The comparative data has been reclassified accordingly.

Counterparty credit risk

For a qualitative disclosure related to counterparty credit risk (CCRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 52-53).

Analysis of exposure to counterparty credit risk (CCR) according to the regulatory approach (CCR1)

	Replacement cost	Potential future exposure	Alpha coefficient used for the computation of the regulatory exposure at default (EAD)	EAD after CRM	RWA
			in NIS millions		
			September 30, 2023		
Current exposure method	2,379	3,193	1.4	7,786	3,996
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	-	5,387	2,562
Total	**2,379**	**3,193**	**-**	**13,173**	**6,558**
			September 30, 2022		
Current exposure method	3,002	2,536		7,754	3,232
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-		4,665	3,067
Total	**3,002**	**2,536**		**12,587**	**6,363**
			December 31, 2022		
Current exposure method	2,379	2,700		7,110	2,952
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-		3,906	2,587
Total	**2,379**	**2,700**		**11,016**	**5,539**

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
	in NIS millions	
	September 30, 2023	
Total portfolios for which CVA is calculated according to the standardised approach	**7,381**	**2,514**
	September 30, 2022	
Total portfolios for which CVA is calculated according to the standardised approach	**7,845**	**2,154**
	December 31, 2022	
Total portfolios for which CVA is calculated according to the standardised approach	**6,890**	**2,077**

The increase in the allocation of capital for the adjustment of revaluation to credit risk stems from an increase in the derivatives activity with customers.

Standardised approach - exposures to counterparty credit risk (CCR) according to regulatory portfolio and risk weights (CCR3)

	0%	20%	50%	75%	100%	Total credit exposure
	in NIS millions					
	September 30, 2023					
Sovereigns	1,170	-	-	-	-	1,170
Public sector entities (PSE) which are not central governments	-	382	-	-	-	382
Banks (including multilateral development banks)	-	4,466	-	-	2	4,468
Securities corporations	-	1,932	-	-	-	1,932
Commercial real estate	-	-	-	-	313	313
Corporations	-	-	42	-	4,809	4,851
Housing mortgages						
Regulatory retail portfolios	-	-	-	5	18	23
Small business	-	-	-	3	31	34
Total	**1,170**	**6,780**	**42**	**8**	**5,173**	**13,173**
	September 30, 2022					
Sovereigns	1,304	-	-	-	-	1,304
Public sector entities (PSE) which are not central governments	-	463	-	-	-	463
Banks (including multilateral development banks)	-	3,066	-	-	-	3,066
Securities corporations	-	2,584	-	-	-	2,584
Corporations	-	-	59	-	5,057	5,116
Housing mortgages	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	35	35
Small business	-	-	-	-	19	19
Total	**1,304**	**6,113**	**59**	**-**	**5,111**	**12,587**
	December 31, 2022					
Sovereigns	891	-	-	-	-	891
Public sector entities (PSE) which are not central governments	-	451	-	-	-	451
Banks (including multilateral development banks)	-	3,154	-	-	3	3,157
Securities corporations	-	2,093	-	-	-	2,093
Corporations	-	-	54	-	4,329	4,383
Housing mortgages	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	19	19
Small business	-	-	-	-	22	22
Total	**891**	**5,698**	**54**	**-**	**4,373**	**11,016**

Composition of collateral with respect to counterparty credit risk exposure (CCR) (CCR5)

	Collateral used in derivatives transactions				Collateral used in securities financing transactions	
	Fair value of collateral obtained		Fair value of collateral deposited		Fair value of collateral obtained	Fair value of collateral deposited
	Detached	Undetached	Detached	Undetached		
	in NIS millions					
	September 30, 2023					
Cash – local currency	952	250	9	268	–	–
Cash – other currencies	–	4,668	–	1,366	–	571
Domestic sovereign debt	–	13	–	–	–	–
Other sovereign debt	–	–	–	–	–	–
Government agency debt	–	–	–	–	–	–
Corporate bonds	–	13	–	–	–	–
Shares	–	1,385	–	–	–	–
Other collateral	–	246	–	–	2,214	–
Total	**952**	**6,575**	**9**	**1,634**	**2,214**	**571**
	September 30, 2022					
Cash – local currency	843	(1)59		(1)284	–	–
Cash – other currencies	–	(1)2,891	–	(1)1,740	–	(1)167
Domestic sovereign debt	–	–	–	–	–	–
Other sovereign debt	–	–	–	–	–	–
Government agency debt	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Shares	–	–	–	–	–	–
Other collateral	–	(1)191	–	–	1,655	–
Total	**843**	**3,141**		**2,023**	**1,655**	**167**
	December 31, 2022					
Cash – local currency	742	(1)122	6	139	–	–
Cash – other currencies	–	(1)2,821	–	1,061	–	(1)216
Domestic sovereign debt	–	(1)8	–	–	–	–
Other sovereign debt	–	–	–	–	–	–
Government agency debt	–	–	–	–	–	–
Corporate bonds	–	(1)1	–	–	–	–
Shares	–	(1)686	–	–	–	–
Other collateral	–	(1)137	–	–	1,918	–
Total	**742**	**3,775**	**6**	**1,200**	**1,918**	**216**

Footnote:
(1) Improvement of data.

Market Risk

For the general qualitative disclosure on market risks (MRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 57-72).

Quantitative disclosure

(1) Limitations set by the Board of Directors

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 60).

(2) Interest Risk Exposure

General

The risk of loss, stemming from parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.

Relation between balance sheet items and the positions included in the disclosure of Market risk

The Group differentiates between two classes of portfolios: the trading portfolio and the banking book. These portfolios differ in the nature of exposure to market risks, reflected also in the management tools used in managing their market risks.

- The trading portfolio comprises of positions in financial instruments held for trading or with the aim of earning gains in the short-term. These positions are marketable and may be hedged in full. As a general rule, the trading portfolio is held by the dealing room and in trading bonds portfolios held by the "Nostro" unit.
- The banking book – all balance sheet assets and liabilities and the off-balance sheet items of the Group that are not included in the trading portfolio.

The risk indices used for the overall interest risk management, are presented in detail in the item "Additional information on exposure to market risk" below.
The models used for the management of interest risk in the banking portfolio only, are presented in detail in the Chapter "Interest risk" (IRRBB) in the banking portfolio below.

Relation between balance sheet items and the positions included in the disclosure of market risk

Assets	Effect of 100BP as of September 30, 2023	Effect of 100BP as of December 31, 2022	Liabilities	Effect of 100BP as of September 30, 2023	Effect of 100BP as of December 31, 2022
	September 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
			in NIS millions		
Credit	3,125	3,106	Deposits	989	1,274
Available-for-sale securities portfolio	754	732	Debt notes	424	418
Trading securities portfolio	2	36	Off balance-sheet (derivatives)	144	221
Held-to-maturity securities portfolio	506	576	Current account spreading	1,725	1,845
Off balance-sheet (derivatives)			Employee rights	216	258
Other	15	18	Other	133	3
Total	**4,402**	**4,467**	**Total**	**3,631**	**4,020**

(3) Additional information – models and risk indices

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 62).

Principal indices for management

Index for the sensitivity of economic value to changes in interest rates. For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 63).

Details of the Group exposure and limitations - in the index of economic value sensitivity to parallel changes in interest graphs by 100 base points (the EVE Model)

	For the quarter ending:			
	September 30, 2023		December 31, 2022	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(772)	(772)	(447)	(845)
Limitation set by the Board of Directors	(1,921)		(1,676)	
The scenario in which the exposure was measured	UP 100	UP 100	UP 100	UP 100

The sensitivity of the accounting value index to changes in interest rates in capital scenarios. For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 63).

Details of the Group exposure and limitations - reduction in accounting value in capital scenarios

	September 30, 2023		December 31, 2022	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(412)	(412)	(149)	(609)
Limitation set by the Board of Directors	(1,921)		(1,676)	

The increase in the results of the scenario in the first nine months stems from the updating of the parameters of the scenario and not as a result of a change in exposure. The results of the scenario based on the old or the new parameters would have led to similar results in both periods.

Indices and additional models

The Value at Risk (VaR)

The VaR of trading operations. The VaR for the trading activity is calculated at daily intervals using the historical (hybrid) method, using a confidence level of 99% and a time horizon of one day.
The Board of Directors has set specific limits for the VaR on trading activity. No exceptions to the limits were recorded in the third quarter of 2023.
This estimate serves as one of the main tools in the management of the trading activity.

Details of the exposure in terms of - VaR in trading activity

	Third quarter 2023		End of year 2022	
	End of quarter	Maximum exposure during the quarter	End of year	Maximum exposure during the year
	in NIS millions			
Actual exposure	15.2	29.2	15.2	29.2
Limitation set by the Board of Directors	40		40	

Footnote:
The VaR calculated for 1 business day and profitability of 99%.

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 64).
For details on loss analysis in extreme scenarios (Stress Tests) and analysis of the anticipated interest income the NII (Net Interest Income) and the EaR (Earning at Risk) model, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 65).

(4) Inflation and exchange rate exposure

The Bank's Exposures to inflation and foreign currency exchange rates is performed from an economic perspective, taking into account the exposure's implications on accounting fluctuations where the accounting and the economic perspectives do not align. The measurement of the risk is performed through calculating the surplus/shortfall of assets to liabilities after including economic revisions.
The actual management of the exposures is conducted on a daily frequency on the basis of economic positions in the various linkage and currencies segments, which differ from the accounting positions which may be seen in Note 32 to the financial statements as of December 31, 2022. The principal change stems from the transfer of linkage segments of pension liabilities for payroll and additional employee rights (from the shekel accounting-measurement segment to the economic-measurement linked segment).
Other changes are: the non-inclusion of losses or gains resulting from changes in the market value of foreign currency or index-linked bonds; the addition of foreign currency fixed assets as financial assets; the transfer of non-performing impaired foreign currency debts to the shekel-linked segment; and the addition of exposure to foreign currency in the severance pay fund for Bank employees (BLD) (only the difference between the severance pay provision and the value of the deposits with the fund is recorded in the accounting positions). The hedge relating to the structural position in foreign currency stemming from the investment in IDB Bank has been removed in order to reduce the sensitivity of the capital ratio to changes in exchange rates.
The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.
The exposure is measured separately for each material currency.

Actual distribution of investment of the equity in relation to the set limitations (the data is stated in relation to the equity)

		Third Quarter 2023				The year 2022		
			Position range					
Segment	Limitation	Period end	From	To	Average	Year end	From	To
CPI linked	80%-(80%)	53.3%	48.0%	53.3%	50.3%	40.7%	33.9%	40.7%
Foreign currency	15% - 30%	18.6%	18.1%	19.6%	18.8%	17.6%	16.8%	17.6%

Footnote:
* Timing of economic position computation: the managed position is computed on the basis of the capital data as of the end of the previous quarter together with changes occurring during the last quarter until date of the computation. These changes are based on data that is not final as it is known at date of computation. On the other hand, the position in the linkage balance sheet is computed on the basis of audited data used in the framework of the financial statements.

The Group's underlying exposures presented in the above Table is based upon a monthly average. Notwithstanding, exposure management in each material subsidiary is conducted in an effective manner and at least once a week.
In the Bank's opinion, the exposure to the various linkage bases at the end of the period is not materially different than the exposure during the period.

(5) Management of positions in the trading portfolio

Trading portfolios. The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" in government bonds in foreign currency and in derivatives. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while creating exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.
As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.
The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.
Activity in derivative financial instruments. The Bank is active in a wide range of derivative financial instruments both in shekels and in foreign currency and acts also as a "market maker" for some of which. A substantial part of the transactions is made "over the counter" (OTC) according to customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.
The market exposures, which are created as a result of activity in derivative financial instruments, both for inflation and foreign currency exchange rates and also for interest, are included within the framework of the Board of Directors' various limits. The counterparty exposures are managed under agreements for the transfer and set-off of collateral and vis-à-vis central clearing houses.
In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers of or its own account). In addition, limits of the Head of the Financial Markets Division were set for the scope of activity according to the types of instruments intended to delimit the operational risk involved in its activity. The volume of activity for a certain instrument does not necessarily represent the level of financial risk inherent therein.
The total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by control functions of the first line of defense.
No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2023.
The Bank's transactions in derivative financial instruments are made partly with banking institutions or with Tel-Aviv Stock Exchange members, who are subject to capital adequacy requirements or compliance with the level of security required by the Tel-Aviv Stock Exchange, and partly with other Bank's customers, who provide security according to the Bank's procedures.
Activity in the Ma'of market. The Bank operates in the Ma'of share index market only on behalf of customers, while maintaining the security level required by the Tel-Aviv Stock Exchange. The Bank operates in options on the dollar exchange rates in the Ma'of market both on customers' behalf and on behalf of the Bank itself.

Accounting data as to the volume of operation in derivative financial instruments of the Bank and its consolidated subsidiaries

	September 30, 2023	December 31, 2022
	in NIS millions	
Not for trading derivatives	91,945	77,571
Of which: hedging derivatives	12,696	10,109
Trading derivatives	402,314	(1)369,299
Total	**494,259**	**446,870**

Footnote:
(1) Reclassified - due to changes in the data.

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof, type of derivative financial transactions and instruments according to the directives of the Supervisor of Banks, is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2022 (pp. 154-155, 246-252).

According to the said directives of the Supervisor of Banks, most of the transactions in derivative financial instruments made by the Bank for managing market risks resulting from its financial base assets (ALM) are classified as "ALM transactions" and not as "hedging transactions". In terms of the said directives more stringent criteria have to be complied with so that transactions in derivative financial instruments could be considered as "hedging transactions".

The majority of base assets, the exposure of which to market risk, as stated, was managed by derivative financial instruments, are not marketable. Income and expenses generated by such assets are recognized on the accrual basis to the statements of profit and loss while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value". Accordingly, no correlation exists between the recording of the base assets and the results they produce according to generally accepted accounting principles and the transactions in derivative financial instruments for those base assets, which are classified as "ALM transactions".

Details of financing income from derivative financial instruments are presented in Note 3 to the financial statements as of December 31, 2022 (p. 163).

Option risks. Option risks relate to the loss that might be incurred as a result of changes in base assets and the volatility thereof, which affect the value of such options, including standard deviations. The Bank is active in a variety of types of options– vanilla options and "exotic" options of certain types as well as on a variety of base assets (foreign currency and interest rates).

The Bank's Board of Directors has set out guidelines regarding the permitted activity in options both as regards overall volume and in terms of the maximum impairment in value under stress tests and in cases of moderate scenarios. The scenarios relate to simultaneous changes in exchange rates, indices and in the volatility of base assets. In addition, the document by the Head of the Financial Markets Division includes limitations on maximum changes in the value of the option portfolio in terms of sensitivity indices ("GREEKS").

No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2023.

Market risk according to the standardized approach (MR1)

The Bank computes the capital allocation required for the exposure to market risks according to the standardized approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. The allotment to market risks includes:

- Interest and shares risks resulting from instruments in the trading portfolio. The interest risk is computed by the "periods to maturity" method;
- Foreign exchange risk of the banking corporation as a whole (eliminating a structural position for IDB Bank according to the approval of the Supervisor of Banks).

In addition, for each of the above mentioned risks, an optional component shall be added, according to the "delta plus" method of the instruments included.

Details of capital allocation to market risks according to the standard approach

	Capital allocation as of	
	September 30, 2023	December 31, 2022
	In NIS millions	
Interest rate risk*	528	419
Foreign exchange rate risk	91	24
Share risk	9	-
Option risk	7	10
Total for the Banking Group	**635**	**454**
Allocation in risk asset terms	**5,079**	**3,633**

* Including the specific risk in the amount of NIS 1.6 million and NIS 1.8 million in June 2023 and December 2022 respectively.

The allocation to market risks in risk asset terms comprises approx. 1.87% of the total risk assets as of September 30, 2023, compared with approx. 1.46% as of December 31, 2022.

Interest rate risk in the banking book (IRRBB)

For details on behavioral economic models integrated in risk management and on behavioral assumptions applied in the assessment of interest risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 68-69).
For quantitative information on interest risk in the banking book and the trading book, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 70-71).
Draft of update to Proper Conduct of Banking Business Directive no. 333 regarding interest rate risk in the banking book (IRRBB). The draft was distributed on May 24, 2023 and reflects the adoption of the Basel Committee's revised document. The draft puts forward principles pursuant to which a banking corporation will be required to manage the IRRBB and, in particular, requirements to take proactive action to identify, measure, monitor, control, and disclose such risks. The principal revisions to the IRBB management principles in the draft are as follows: more detailed guidelines regarding the manner in which the IRRBB is to be managed and, in particular, with regard to developing stress and shock scenarios in implementing interest-rate risk measurement (Principle 4), with regard to key behavioral and modelling assumptions in managing IRRBB (Principle 5), and with regard to the internal validation process that needs to be implemented for the internal measurement systems (IMS) and the models that are used to measure the IRRBB (Principle 6); a standard framework (optional or binding, as decided by the Supervisor of Banks) for managing IRRBB; redefining the "outlier banking corporation" test (set out in Principle 12).
A draft Q&A file relating to the implementation of the updated directive was distributed together with the draft. According to the draft, it will go into effect from December 31, 2024.

Shares Risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 71-72).

Liquidity risk

Liquidity risk is the risk to the stability of the Group stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result thereof the Group would be compelled to raise funds and/or realize assets in a way that would result in a material loss. The Bank has determined a maximum exposure limitation to the liquidity risk.

The liquidity coverage ratio – principal disclosures table (LIQ1)

	For the period of three months ended					
	September 30, 2023		September 30, 2022		December 31, 2022	
	In NIS millions					
	Total non-weighted value (average)	Total weighted value (average)	Total non-weighted value (average)	Total weighted value (average)	Total non-weighted value (average)	Total weighted value (average)
Total high quality liquid assets						
Total high quality liquid assets (HQLA)		77,636	-	79,544		79,444
Cash outflows						
Retail deposits from individuals and small businesses, of which:	162,143	9,630	153,764	10,718	156,533	10,324
Stable deposits	47,712	2,354	53,002	2,619	51,421	2,540
Less stable deposits	53,042	5,434	69,987	7,176	63,856	6,546
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	61,389	1,842	30,775	923	41,257	1,238
Unsecured wholesale financing, of which:	106,128	66,936	108,192	66,288	108,357	66,164
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	-	-	-	-	-	-
Deposits not for operational purposes (all counterparties)	104,419	66,836	106,463	66,155	107,063	66,088
Unsecured debts	1,709	101	1,729	132	1,294	76
Secured wholesale financing	-	50	-	147	-	202
Additional liquidity requirements, of which:	86,833	21,652	86,503	21,042	91,045	23,309
Cash outflows for exposure to derivatives and other collateral requirements	16,465	14,063	14,264	13,691	16,914	16,360
Cash outflows for loss of financing of debt products	-	-	-	-	-	-
Credit and liquidity facilities	70,368	7,589	72,239	7,351	74,131	6,949
Other contractual financing commitments	80,780	1,055	37,345	952	38,158	982
Other conditional financing commitments	3,054	104	2,905	99	2,927	98
Total cash outflows		**99,428**	**-**	**99,245**		**101,079**
Cash inflows						
Secured loans (e.g., Reverse repo transactions)	512	512	953	953	658	658
Cash inflows from regularly performing exposure	31,940	26,435	25,745	21,109	27,566	22,752
Other cash inflows	19,205	15,370	15,449	13,719	19,839	16,783
Total cash inflows	**51,656**	**42,317**	**42,148**	**35,781**	**48,063**	**40,193**
		Total adjusted value		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		**77,636**		**79,544**		**79,444**
Total net cash outflows		**57,111**		**63,464**		**60,884**
Liquidity Coverage Ratio		135.9%		125.3%		130.5%

Liquidity risk – qualitative disclosure and additional disclosures in respect to the liquidity coverage ratio (LIQA)

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 74-80).

Liquidity coverage ratio - Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio"

For details on the Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 77-78).

The liquidity coverage ratio of the Discount Group

As of September 30, 2023, the ratio amounted to 130.5%, compared to 131.1% on December 31, 2022. The average liquidity ratio in the third quarter of 2023 amounted to 135.93% as compared with an average ratio of 130.47% in the fourth quarter of 2022.
The average liquidity ratio rose in the third quarter of 2023 mainly as a result of the debt offerings made by the Bank during the period, amounting to approx. NIS 4 billion, as a result of pledging the mortgage portfolio pledge and as a result of the positive effect of the dollar exchange rate on the liquidity balances. This effect was offset by growth in the Bank's credit portfolio. The contribution of deposits from the public to the Bank's liquidity has declined slightly over the first three quarters.
The liquidity coverage ratio is based on a high and quality liquidity buffer. The liquidity buffer is based in shekels on the short-term loan (MAKAM), on Israel government bonds and on current account balances and deposits with the Bank of Israel. In foreign currency, the buffer is based on U.S. government bonds (in IDB Bank on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED.

Details of the composition of the liquidity buffer

		For the period ended	
	Assets included	September 30, 2023	December 31, 2022
		in NIS millions	
Buffer 1	Cash	46,125	56,890
	Israel Bonds/Short-term loans (MAKAM)	13,966	9,054
	Foreign bonds	11,285	12,110
Buffer 2	Sovereigns bonds	25	224
	Mortgage bonds issued by public corporations	129	322
	Corporation Bonds AA	798	609
Buffer 2 b	Corporation Bonds A	203	228
Total		**72,531**	**79,437**

The computation of the Group liquidity coverage ratio is based on an independent calculation of each of the Group companies. The Bank's Management has defined for each Company in the Group a minimum target for the liquidity coverage ratio. The transfer of liquidity from IDB Bank to its parent company (the Bank) is limited by local regulation, and therefore, the recognition of surplus liquidity of IDBNY in the group model, is limited accordingly. The surplus of Mercantile Discount Bank, operating under a regulatory framework identical to that of the Bank, is included in the Group model.
Most of the liquidity surplus of the Group originates in the liquidity surplus of the Bank.

Distribution of the liquidity coverage ratio (average for the quarter) according to the legal entities within the Group

	For the period ended	
	September 30, 2023	December 31, 2022
	In %	
Discount Group	135.94%	130.47%
The Bank	153.44%	145.42%
IDB Bank	114.78%	112.17%
MDB	145.37%	[1]134.18%
Total	**135.9%**	**130.5%**

Concentrating the liquidity surplus at the Bank allows for much flexibility in the management of the Group's liquidity. Alongside the expectation for the independent management of the liquidity risk by the subsidiaries, the Management of the Group is able to shift liquidity between the companies in the Group.

The liquidity coverage ratio in the principal currencies

The Bank measures also the liquidity coverage ratios in the principal currencies. As of September 30, 2023, the coverage ratio in shekels was 120.04% compared with 115.6% at December 31, 2022. The rise in the ratio was mainly due to the reasons detailed regarding the change in the amount of the liquidity balances and from the effect of Shekel/Dollar swap transactions.
The liquidity coverage ratio as of September 30, 2023, respecting the total of foreign currencies, amounted to 189.4% compared to 234.8% on December 31, 2022. The decrease in the ratio stemmed from the effect of Shekel/Dollar swap operations.
The liquidity coverage ratio with respect to US dollars as of September 30, 2023 was 187.4% as compared with 212.2% on December 31, 2022. The decrease in the ratio stemmed from the decline in inflow of cash due to Dollar/Shekel swap operations.
In Euros, the liquidity coverage ratio at September 30, 2023, was 104.2% compared with 160.7% at December 31, 2022. The decrease in the ratio stemmed from the effect of Dollar/Euro swap operations.
The Discount Group has a surplus of resources in foreign currency over applications, principally in U.S. dollars and in Euro. Accordingly, the Bank, invests its surplus liquidity in securities, bank deposits and in the interbank foreign currency/shekel SWAP transactions market. This activity allows the Bank to regulate the use of this surplus between liquidity considerations and yield considerations.

Net Stable Funding Ratio (LIQ2)

	30.09.2023				
	Non weighted value according to periods of repayment				Weighted value
	With no repayment date	Up to six months	From six months up to one year	One year or over	
	In NIS millions				
Available stable funding items (AFS)					
Capital:	29,335	-	-	-	29,335
Regulatory capital	28,082	-	-	-	28,082
Other capital instruments	1,253	-	-	-	1,253
Retail deposits by individuals and small businesses:	-	138,454	20,924	1,969	148,578
Stable deposits	-	57,541	5,837	1,148	61,357
Less stable deposits	-	80,913	15,087	821	87,221
Wholesale funding:	-	141,607	16,086	6,587	58,065
Deposits held for operational requirements	-	-	-	-	-
Other wholesale funding	-	141,607	16,086	6,587	58,065
Liabilities with interdependent matching assets	-	-	-	-	-
Other liabilities:	-	15,158	672	17,167	17,504
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio	-	2,579	-	-	-
All other liabilities and capital not included in the above categories	-	15,158	672	17,167	17,504
Total Available Stable Funding (AFS)	**-**	**-**	**-**	**-**	**253,482**
Total high quality liquid assets according to net stable funding ratio (HQLA)	**-**	**-**	**-**	**-**	**5,260**
Deposits held with other financial institutions for operational requirements	-	-	-	-	-
Performing loans and securities:	-	125,583	29,864	161,703	186,356
Performing loans to financial institutions, secured by high quality liquid assets of level 1	-	-	-	-	-
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions	-	18,954	792	5,652	8,511
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:	-	103,957	26,113	100,465	126,043
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	51,445	474	3,848	6,017
Performing housing loans secured by a mortgage, of which:	-	2,574	2,549	53,574	49,838
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	706	2,308	14,769	11,419
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities	-	98	410	2,012	1,964
Assets with interdependent matching liabilities	-	-	-	-	-
Other assets:	93	4,849	514	9,908	12,996
Commodities physically traded, including gold	93	-	-	-	93
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)	-	-	-	-	-
Assets in respect of derivative instruments for the purpose of net stable funding ratio	-	-	-	1	1
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral	-	-	-	197	197
All other classes of assets not included in the above categories	-	4,849	514	9,908	12,705
Off-balance sheet items	-	98,047	3,477	3,304	5,241
Total required stable funding (RSF)	**-**	**-**	**-**	**-**	**209,853**
Net stable funding ratio (NFSR) in percentages	**-**	**-**	**-**	**-**	**120.79**

Footnote:
(1) The Directive regarding Net Stable Funding Ratio is being implemented as from December 31, 2021.

Net Stable Funding Ratio (LIQ2) (continued)

	30.09.2022				
	Non weighted value according to periods of repayment				Weighted value
	With no repayment date	Up to six months	From six months up to one year	One year or over	
	In NIS millions				
Available stable funding items (AFS)					
Capital:	26,392	-	-	-	26,392
Regulatory capital	24,654	-	-	-	24,654
Other capital instruments	1,738	-	-	-	1,738
Retail deposits by individuals and small businesses:	-	141,149	12,953	3,250	145,084
Stable deposits	-	59,009	3,836	1,563	61,266
Less stable deposits	-	82,140	9,117	1,687	83,818
Wholesale funding:	-	128,870	17,566	9,142	59,328
Deposits held for operational requirements	-	-	-	-	-
Other wholesale funding	-	128,870	17,566	9,142	59,328
Liabilities with interdependent matching assets	-	-	-	-	-
Other liabilities:	-	16,069	1,415	12,891	13,599
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio	-	4,775	-	-	-
All other liabilities and capital not included in the above categories	-	16,069	1,415	12,891	13,599
Total Available Stable Funding (AFS)	**-**	**-**	**-**	**-**	**244,403**
Total high quality liquid assets according to net stable funding ratio (HQLA)	**-**	**-**	**-**	**-**	**15,824**
Deposits held with other financial institutions for operational requirements	-	-	-	-	-
Performing loans and securities:	-	129,767	28,640	151,607	170,612
Performing loans to financial institutions, secured by high quality liquid assets of level 1	-	-	-	-	-
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions	-	16,349	763	5,025	7,561
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:	-	111,167	25,691	94,403	115,719
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	65,113	430	3,725	4,996
Performing housing loans secured by a mortgage, of which:	-	2,248	2,186	50,296	45,730
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	581	571	13,155	9,127
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities	-	3	-	1,883	1,602
Assets with interdependent matching liabilities	-	-	-	-	-
Other assets:	86	3,368	359	7,262	9,126
Commodities physically traded, including gold	86	-	-	-	86
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)	-	-	-	-	-
Assets in respect of derivative instruments for the purpose of net stable funding ratio	-	-	-	44	44
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral	-	-	-	300	300
All other classes of assets not included in the above categories	-	3,368	359	7,262	8,696
Off-balance sheet items	-	109,392	2,125	4,176	5,785
Total required stable funding (RSF)	**-**	**-**	**-**	**-**	**201,347**
Net stable funding ratio (NFSR) in percentages	**-**	**-**	**-**	**-**	**121.38**

Net Stable Funding Ratio (LIQ2) (continued)

	31.12.2022				
	Non weighted value according to periods of repayment				Weighted value
	With no repayment date	Up to six months	From six months up to one year	One year or over	
	In NIS millions				
Available stable funding items (AFS)					
Capital:	26,888	-	-	-	26,888
Regulatory capital	25,363	-	-	-	25,363
Other capital instruments	1,525	-	-	-	1,525
Retail deposits by individuals and small businesses:	-	134,314	20,525	2,663	145,140
Stable deposits	-	56,506	5,965	1,140	60,487
Less stable deposits	-	77,808	14,560	1,523	84,653
Wholesale funding:	-	129,636	18,295	8,097	58,948
Deposits held for operational requirements	-	-	-	-	-
Other wholesale funding	-	129,636	18,295	8,097	58,948
Liabilities with interdependent matching assets	-	-	-	-	-
Other liabilities:	-	14,720	1,262	12,721	13,352
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio	-	1,073	-	-	-
All other liabilities and capital not included in the above categories	-	14,720	1,262	12,721	13,352
Total Available Stable Funding (AFS)	**-**	**-**	**-**	**-**	**244,328**
Total high quality liquid assets according to net stable funding ratio (HQLA)	**-**	**-**	**-**	**-**	**9,099**
Deposits held with other financial institutions for operational requirements	-	-	-	-	-
Performing loans and securities:	-	129,490	29,129	152,608	172,623
Performing loans to financial institutions, secured by high quality liquid assets of level 1	-	-	-	-	-
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions	-	16,470	621	3,469	5,912
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:	-	110,121	26,093	95,700	118,205
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	61,588	445	3,841	5,091
Performing housing loans secured by a mortgage, of which:	-	2,350	2,340	51,423	46,480
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	658	663	14,421	10,034
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities	-	549	75	2,016	2,026
Assets with interdependent matching liabilities	-	-	-	-	-
Other assets:	93	2,997	429	7,348	9,034
Commodities physically traded, including gold	93	-	-	-	93
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)	-	-	-	-	-
Assets in respect of derivative instruments for the purpose of net stable funding ratio	-	-	-	27	27
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral	-	-	-	92	92
All other classes of assets not included in the above categories	-	2,997	429	7,348	8,822
Off-balance sheet items	-	93,005	2,910	3,084	4,950
Total required stable funding (RSF)	**-**	**-**	**-**	**-**	**195,706**
Net stable funding ratio (NFSR) in percentages	**-**	**-**	**-**	**-**	**124.84**

Financing risk - available and unrestricted assets

The Bank pledges assets belonging to the liquidity buffer for several purposes, with an emphasis for use as collateral for financial transactions with entities as the Stock Exchange, the Bank of Israel, etc. As a general rule, all pledged liquid assets are excluded from the liquidity buffer for the purpose of the daily measurement, except for assets pledged to secure the ability to realize liquidity, which in fact has not been utilized. These are being excluded only upon utilization. Collaterals pledged in favor of the Bank, are not recognized in the liquidity buffer.

Available and unrestricted assets

As of	September 30, 2023	December 31, 2022
	in NIS millions	
Total assets as of	116,489	119,002
Liquidity requirement	8,942	10,233
Of which pledged	21,685	21,660
Of which provided as collateral	922	894
Total available assets	**84,940**	**86,215**

Additional risks

Operational risk

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events. The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

For additional details on operational risks, including risk of fraud and embezzlement, business continuity and outsourcing and supplier risk, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd., as stated (pp. 83-89).

Other risks

Information technology risk management

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 89-90).

Data and cyber protection risks

Threats in the cyberspace

In the third quarter of 2023, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.
A number of outstanding trends were noted in April-June of 2023:
- As part of the OP-ISRAEL events, many websites in Israel experienced DDOS attacks (deprivation of services);
- Continuation of cyber attacks on various organizations in Israel, by Iranian cyber groups, and on Internet websites, by pro-Palestinian groups relating themselves to Anonymous.

For additional details on data and cyber protection risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 90-93).

Environmental and climate risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 93-95).

Legal risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 95-97).

Compliance risks

Guidelines for the financial sector reporting to the Authority for the Prohibition of Money Laundering and Financing of Terrorism. On October 11, 2023, the Authority for the Prohibition of Money Laundering and Financing of Terrorism published guidelines regarding the need to step-up the financial sector's watchfulness for illegal financial activity in light of the "Iron Swords" War. Within this framework, the Authority asked the financial sector to pay greater attention to the issue and to devote all the resources needed to monitor, locate and report to the Authority effectively and immediately on activities that appear to have potential risks for funding and supporting terrorism. These guidelines included instructions on how to report suspicious actions to the Authority for the Prohibition of Money Laundering and to the police, the details that should be noted in the report, and receiving instructions from the police in the relevant instances. In addition, stress was given regarding potential violations of the law and the obligation to delay a transaction if there was a suspicion that a particular transaction is related to a serious terrorist offense.
Discount Group's activities with banks acting in the Palestinian Authority. In 2018, the Bank received immunity letter and indemnity letter signed by the State of Israel. Following extension, the indemnity letter and immunity letter are in effect until May 31, 2021.
On the background of the delay in the start of operation of the Correspondence Government Company, that had been established but has not yet begun operations for providing services for banks operating in areas of the Palestinian Authority, the validity of the letters of indemnity and immunity has been extended twice more, until March 31, 2023. At the request of the Bank and MDB, an amended letter of indemnity was received on February 9, 2023, by which, inter alia, the State is committed to indemnify the Bank and MDB in an amount of up to NIS 2 billion, for each indemnifiable event. The commitment of the State to indemnify is subject to limits and terms that the banks have to abide with, similarly to the limits and terms stated in the original letter of indemnity. The power of the letter of indemnity and the letter of immunity was extended until March 31, 2024.

In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.

For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 97-102).

Conduct risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 102).

Exposure to cross-border risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 102-104).

Strategic risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 105).

Reputation risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 105-106).

Model risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 106).
Draft of new Proper Conduct of Banking Business Directive regarding "Model Risk Management". The draft was published on June 11, 2023. The draft describes the main aspects of effective model risk management, and also applies to models that include or are based on artificial intelligence, which could expose the banking corporations to new risks or could accentuate existing risks. The draft defines the term "model" and model risks, and prescribes provisions regarding corporate governance, policy and controls, as well as provisions and clarifications regarding the development, application and use of models and their validation. Pursuant to the draft, the directive will go into effect within a year of its publication (other than with regard to exceptions).

Compensation to senior officers

For details on compensation to senior officers, according to the provisions of Regulations 21 and 22 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, see under "Corporate governance, audit and additional details of the banking corporation's business and the management thereof" in the 2022 Annual Report (pp. 333-337).
For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 107-114).

Addendums

For details on linkages between the financial statements and regulatory amounts, see the document regarding ”Disclosure according to the third pillar of Basel and additional information on risk”, which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 115-124). For details on Securitization, see the document regarding ”Disclosure according to the third pillar of Basel and additional information on risk”, which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 125).

November 26, 2023	Shaul Kobrinsky Chairman of the Board of Directors	Avi Levy President & Chief Executive Officer	Orit Caspi Executive Vice President Chief Risk Officer

Glossary

Management quality	Assessment of the appropriateness and effectiveness of risk management (effectiveness of the controls).
Key Risk Indicator	Means/pointer showing the risk exposure situation in relation to the risk.
Failure event	An event where risk is realized, whether or not causing damage to the Bank.
Gross credit	Balance sheet or off-balance sheet credit, before credit risk mitigation (CRM), before conversion to credit (CCF) and before allowances for credit losses.
Off-balance sheet credit	Includes: unutilized binding facilities, guarantees, documentary credit and derivatives. Binding facilities– any presentation by the corporation to its customer for the granting of credit (balance sheet and/or off-balance sheet) whether in writing or orally or in another manner of conduct where it can be expected that a reasonable customer would rely on such presentation as one which binds the Bank.
Balance sheet credit	Credit (to the public, governments) and bonds.
Collateral	Different assets (marketable and nonmarketable) designated to secure the repayment of customer debts, when the customer defaults on the current repayments agreed between him and the Bank.
Credit Risk Mitigation (CRM)	Items offsetting risk permitted according to the rules of Basel II (mainly: liquid collateral pledged as required). According to these rules, the Bank, when computing the capital requirements, may reduce its credit exposure to the counterparty, thus taking into consideration the effect of the collateral.
Allowances for credit losses	A provision created by the Bank to cover possible losses on its customer indebtedness. The Bank of Israel guidelines require that specific and group provisions should be created. Allowance for credit losses on a specific basis – an allowance required to cover expected credit losses for debts examined on a specific basis and found to be impaired. Allowance for credit losses on a group basis – an allowance for large groups of debts (performing and nonperforming) including allowances for credit losses for housing loans measured by the "extent of the arrears period" method.
Debt under special mention	A debt having potential weaknesses that require special attention by the Management. If such weaknesses remain unattended, the result might be deterioration in the prospects of repayment of the credit, or in the Bank's status as a creditor.
Substandard debt	A debt insufficiently secured by the present value based on the collateral and the repayment ability of the debtor, creating a clear possibility that the Bank will sustain a certain loss if the deficiencies are not rectified. It is required that the weakness endangering the repayment of the debt should be well defined.
Impaired debt	A debt the Bank estimates it will not be able to collect the amounts due to it and in the due dates per the debt agreement.
Liquidity coverage ratio (LCR)	The ratio of total high quality liquid assets to total net cash outflows during the next thirty calendar days.
Business goal	A defined business target in quantitative or qualitative terms, subject to restrictions of the risk appetite.
Recorded amount	The balance of a debt, including recognized accrued interest, unamortized premium or discount, differed commissions or deferred costs charged to the debt and not yet amortized, after deduction of any amount written off accounting wise. Non-recognized interest, or interest which had been recognized in the past and reversed at a later date, should not be included in the recorded amount.
Uniform macro-economic stress test	A stress test published by the Supervisor of Banks, based on a uniform scenario for all the banking industry and on macro-economic parameters formed by the Regulator
Sensitivity tests	A method which assesses the effect of a change in a single risk factor, or in a number of risk factors, on the financial condition of the banking corporation (for example: in market risk – steep decline in interest rate; in credit risk – steep decline in housing prices).
Restriction (internal)	A statement determined by the Bank, setting out a limit to activity within the framework of the risk appetite.
Capital outline	A detailed plan of the capital ratios forecast for the coming years, which includes the assumptions used for the forecast, a description of the expected implications in the capital layers and capital ratios, sensitivity analysis of the principal risks, and conformity by the Bank with the capital targets. The capital outline serves as a basis for the determination of a recommendation to the Management and to the Board of Directors on the capital targets of the work plan, including the capital buffer, the risk asset budget, capital issuance and dividend distribution.

Glossary (continued)

Over the counter (OTC) derivatives	Transactions in derivatives not traded on a formal stock exchange, to which the Bank is a party.
Monitoring of capital ratios	Monitoring changes in risk assets and in the capital base of the Group, and an assessment of attaining the capital targets as determined by the Board of Directors.
Alert levels	Intended to indicate exposure to risk when it reaches a certain level below the stated restriction.
Risk profile	Assessment of the combined risk inherent in the exposures and in the activity of the Bank
Risk appetite	Reflects the level of risk a corporation is ready to accept, consistently with its business strategy, capital planning, liquidity planning and financing resources of the corporation. The risk appetite includes quantitative restrictions and qualitative goals, which outline the determination of the group business policy in the various risk fields, and comprises a central tool of the Board of Directors for the supervision and control of the risk profile of the corporation.
Available-for-sale portfolio	Securities not classified as bonds held to maturity or as trading securities.
Trading portfolio	Composed of positions in financial instruments held with the intension of trading, for the purpose of resale within a short period of time, and/or with the intent of earning gains from actual or expected changes in prices in the short-term or of realizing arbitrage gains. In order for a financial instrument to be considered part of the trading portfolio, it has to be free of any encumbrance on its marketability, or that it may be hedged in full.
Held-to-maturity portfolio	Securities for which the Bank has the intention and ability to hold them for a long period of time/to maturity. The portfolio is stated at the rate of return to maturity inherent therein since purchase date.
Stress tests	A risk management method used to assess the potential effects of a specific event and/or a change in a set of financial variables on the financial condition of a banking corporation. Traditionally, the focus of stress tests is on exceptional events though reasonable.
Credit conversion factors (CCF)	Conversion of off-balance sheet items to credit equivalents – according to the standard approach of Basel II, off-balance sheet items are converted to equivalent credit exposure by means of credit conversion coefficients.
Credit support annex (CSA)	An Annex to the ISDA which regularizes the matter of collateral for derivative transactions against the counterparty. This Annex determines a threshold amount reflecting the maximum exposure which each of the counterparties is ready to accept without collateral.
International Swaps and Derivatives Association (ISDA)	An international agreement which allows the setting off of liabilities and mutual requirements stemming from over the counter derivative transactions, in the case of insolvency of a counterparty.
Foreign Account Tax Compliance Act (FATCA)	In order to reduce tax evasion by American taxpayers, the Foreign Account Tax Compliance Act (FATCA) was enacted in 2010 in the United States. Under the FATCA provisions, financial bodies outside the US are required to identify and report to the U.S. Tax Authorities, any U.S. citizen or any U.S. resident having a financial account with them. This Regulation entered to effect on July 1, 2014. The Regulation is being implemented in many countries, including Israel, within the framework of an inter-state treaty signed by Israel and the United States.