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DISCOUNT ANNUAL REPORT 2023

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ISRAEL DISCOUNT BANK

134 hostages
155 days in Gaza

praying and waiting for their return

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2023

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Statement of the Chairman of the Board of Directors

Dear shareholders,

I am pleased to submit to you the annual report for the year 2023.
The year 2023 will be remembered, most of all, as the year when the "Iron Swords" war began, which confronted the State of Israel with one of the most difficult challenges in its history. Alongside the great difficulty and trauma that has accompanied us all since the beginning of the war, we also see solidarity, unity of purpose and mutual responsibility in the various segments of Israeli society, and find in them a source of hope and optimism regarding the future of Israeli society.
We, too, in the Discount Group, saw our role, first and foremost, to continue serving our customers in the best possible way, with determination and dedication, even under the complex conditions brought on by the war. Business and economic continuity, to ensure economic stability and to strengthen the economy in Israel, has been the main motivation for all our actions.
At the outbreak of the war, we acted quickly to assist our customers with a complete and comprehensive response to their needs. We have approved a series of credit reliefs and diverse financial solutions for the households segment and the small businesses segment, particularly for our customers living in the conflict zones in the south and north and for the security forces. Within this framework, we have enlarged the assistance package and reliefs that were set out in the outline published by the Bank of Israel. Alongside these measures, we have been working vigorously to provide broad assistance to the community in general and to the residents of the south in particular, with extensive volunteer activity by our employees, large-scale donations and individual assistance to evacuees. Discount Group's main support project is the establishment of the "Keren Or" foundation, a dedicated aid foundation for children and youth from the conflict zones harmed by the war. The foundation has been allocated NIS 50 million and is working to provide a wide-ranging and long-term holistic response to the needs of children and youth in order to restore their personal and communal security.
Despite the challenging circumstances, Discount Group has continued to work determinedly to implement the strategic plan and to achieve the goals it has set itself, along with continued responsible and significant growth in all the focus areas, and on the background of all these, the Group has delivered excellent financial results for 2023.
The Group ended 2023 with a net profit of NIS 4,192 million, which reflects a 19.9% increase compared to the previous year's net profit. The return on equity reached 15.7%, compared to 15.1% in the previous year and the operating efficiency ratio also improved to 49.6%, compared to 55.8% in the previous year. The results reflect significant growth in income against the background of higher interest. Alongside this, there has been further responsible growth in credit, with the Group's total credit having grown by 7.6% in 2023.
This year also, our subsidiary companies have continued to implement the unique strategies defined for them and have contributed significantly to the economic value of the Group, with their contribution to profit in 2023 reaching a rate of approx. 35%.
Alongside our core activities and as part of the Bank's efforts to promote disruptive innovation, we are continuing to develop and grow PayBox and Greenlend. PayBox is continuing to grow its customer base and serves as the leading digital wallet in Israel. During 2023, the company was granted approval to accept deposits from the public and a credit brokerage license and, from the third quarter, began paying interest on the personal balance on the application to eligible customers holding a PayBox card. Greenlend, a fintech company providing digital credit, is currently working toward the launch of the first credit product for customers of all the banks through innovative technology, which is personalized and uses a simple and fully digitized process.
2023 was a meaningful year for the Discount Group from additional aspects.
Over the course of the year, we parted company with Uri Levin, who successfully led the Discount Group in recent years and has positioned it as a powerful and dominant entity that constantly challenges the financial system in Israel, and we have appointed Avi Levy as the Group's President & CEO. Avi is a talented manager, with rich and diverse experience and extensive professional expertise, along with proven ability in the changing world of banking and finance. Avi leads the Group responsibly and successfully in the face of the challenges of the time and toward exciting new goals.

The move of all the units of the Bank and Mercantile Discount Bank, which were planned to move to the 'D campus' (the new Discount Campus in the HaElef Complex of Rishon LeZion), was completed during the year. The move to our high-tech campus is a dramatic and significant event for the Group that touches on many aspects – from infrastructure and business continuity aspects to the creation of an innovative and advanced work environment for the Group's employees. Already now, just a few months after completing the move, we are able to testify to the significant impact that this has had on the organizational culture: initiative and creativity, collaboration and the sense of partnership, and shortening and streamlining processes.

In 2023, too, we continued to operate within the framework of the Bank's strategic plan, a plan that is aimed at supporting the realization of our ambitious vision – to be the best financial institution, producing maximum value for our shareholders over time. Determined endeavor in all areas of activity and in accordance with the defined plan has led to the achievement of the strategic goals that we set for 2025, and thus supported the decision to embark on a process of formulating a new strategic plan and a new multi-year financial plan.

Looking to the future, we intend and are planning to pursue two paths. One looks to the near future and to the challenges that we recognize against the background of the war and the macro variables and their impact on our business and private customers. This reality requires us to plan and prepare responsibly and with careful risk management on the one hand, and with creativity and a different mindset on the other, so that we can continue to give our customers the solutions and products that are appropriate for them. The second path looks further ahead, anticipating a world of revolutionary technologies and other rapid changes in all aspects of life – in which we will act in accordance with a new strategic plan, which will include multi-year goals that reflect our ambition to continue to grow and lead innovation, and from aiming for a central goal, continue and support the financial strength of our customers and to maximize value for all our stakeholders.

Before concluding, thank-yous.

First and foremost, to our private and business customers, who trust us and have chosen us to serve them and provide them with the financial solutions they need.

We also thank all of our suppliers and business partners, who enable us to fulfill this important task, and to our shareholders, who have faith in us and in our ability to act for the benefit of all our stakeholders.

I would like give special thanks to Shaul Kobrinsky, who ended a nine-year tenure on Discount's board of directors last December, the last five of which were as chairman of Discount, for his long-standing contribution to the Bank's achievements, and to wish him many more years of fruitful work and many more successes down the road.

Our thanks and appreciation also go out to all the employees of the Discount Group for another year of excellent work and for their commitment and great devotion to our customers, and thanks the Group's Managements for their professional, responsible and steadfast leadership. Together, we will continue creating, innovating, and leading the work being done on the road to realizing the business goals, for the benefit of Discount, its customers, its employees and its shareholders.

May we all look forward to better days, days of tranquility and recovery, days of endeavor and creation, and days of prosperity and peace.

March 10, 2024

Danny Yamin
Chairman of the Board of Directors

Chapter "A" - General overview, goals and strategy

The meeting of the Board of Directors, held on March 10, 2024, resolved to approve and publish the Bank's 2023 Annual Report.

The Discount Group - Condensed Description and Principal Areas of Operation

Israel Discount Bank Ltd. (hereinafter: "the Bank") was incorporated in Palestine in 1935, as a public company under the Companies Ordinance. The Bank was founded by the late Mr. Leon Recanati. The Bank is a banking corporation having a banking license under the provisions of the Banking Act (Licensing), 1981 (hereinafter: "the Banking Act (Licensing)"). During the eighty-eight years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres.

Domestic Operations

The Discount Group offers its customers comprehensive banking services in all fields of financial activity, by means of a chain of 173 branches in Israel (100 branches of the Bank and 73 branches of Mercantile Discount Bank Ltd.), online banking services and digital banking.
The activities in Israel cover additional fields, including:

- Credit cards - The Bank controls Israel Credit Cards Ltd. ("ICC") and Diners Club Israel Ltd. ("Diners"), which issue, market and operate "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use and clears transactions made by "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and the brand "IsraCard" (in Israel only), as well as engaged in extending off-banking credit and in the development of payment solutions (for details regarding the separation of ICC from the Discount Group, see Note 36 B 1 to the financial statements);
- Non-financial investments and underwriting - the subsidiary "Discount Capital Ltd." is engaged in investments in companies, in private equity funds, in venture capital funds, in the investment banking field, as well as in initiating and assisting public offerings and private placements and providing underwriting and distribution services by means of a subsidiary company;
- Securities portfolio management - the subsidiary, Tafnit Discount Asset Management Ltd. ("Tafnit"), which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;
- Digital Financial Services – the Bank holds PayBox Company (50.1%), which operates a payment platform and engages in accepting deposits, as well as Greenland Company (70%), which is to start operations of extending consumer credit and credit to small and medium businesses, both companies serving customers of all banks.

International Activity

The international activity of the Discount Group is conducted by the subsidiary company in the United States. IDB Bank is the only bank fully under Israeli ownership operating in the US, and at the present time operates branches in the New York area, Florida and California. This bank has representative offices in Latin America and in Israel.
The international activity is characterized as business-commercial and private banking activity.

Market share

Based on data relating to the banking industry as of September 30, 2023, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows

	September 30, 2023	December 31, 2022
	In %	
Total assets	16.5	15.9
Net credit to the public	17.0	16.8
Deposits from the public	15.6	15.4
Net interest income	18.2	17.6
Total non-interest income	25.3	22.7

Condensed financial information regarding financial position and operating results

Condensed financial information and main performance indicators over a period of time - consolidated

	Year				
	2023	2022	2021	2020	2019
			In %		
Main performance indicators:					
Return on equity	15.7	15.1	13.6	5.1	9.4
Return on assets	1.08	0.99	0.91	0.35	0.70
Ratio of net credit to the public to deposits from the public	86.9	82.5	81.7	83.5	89.6
Ratio of common equity tier 1 to risk assets	10.71	10.25	10.14	10.20	10.31
Ratio of total capital to risk assets	13.48	13.03	13.46	13.06	13.86
Leverage ratio	6.7	6.2	6.0	6.3	6.9
Liquidity coverage ratio[1]	130.7	130.5	123.1	147.5	121.2
Net Stable Funding Ratio	124.2	124.8	126.7	[2]-	[2]-
Efficiency ratio	49.6	55.8	65.4	67.5	65.2
Main credit quality indicators:					
Ratio of balance of allowance for credit losses for credit to the public, to balance of credit to the public	1.60	1.31	1.41	1.95	1.38
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	0.95	0.67	0.76	0.95	0.90
Ratio of net accounting write-offs for credit to the public to the average balance of credit to the public	0.17	0.11	0.03	0.19	0.23
Ratio of credit loss expenses to the average balance of credit to the public	0.59	0.18	(0.34)	0.91	0.40
			In NIS millions		
Principal statements of profit and loss data for the reporting period:					
Net Profit Attributed to the Bank's Shareholders	**4,192**	**3,495**	**2,773**	**975**	**1,702**
Net interest income	10,936	8,693	6,529	5,898	5,893
Credit loss expenses (expenses release)	1,502	407	(693)	1,718	690
Non-financing income	5,138	4,251	3,962	4,007	3,771
Of which: Fees and commissions	3,495	3,404	3,125	2,826	2,972
Non-financing expenses	7,966	7,217	6,858	6,681	6,299
Of which: salaries and related expenses	3,850	3,568	3,468	3,242	3,343
Comprehensive income, attributed to the Bank's shareholders	**4,652**	**2,757**	**2,396**	**559**	**1,782**
Total earnings per share attributed to Bank's shareholders (in NIS)	3.39	2.87	2.38	0.84	1.46

For footnotes see next page.

Condensed financial information and main performance indicators over a period of time – consolidated (continued)

	Year				
	2023	2022	2021	2020	2019
	In NIS millions				
Principal balance sheet data for the end of the reporting period:					
Total assets	**395,724**	**376,754**	**335,088**	**293,969**	**259,823**
Of which:					
Cash and deposits with banks	51,115	65,713	59,638	42,936	26,044
Securities	59,268	44,794	43,869	42,785	37,745
Net credit to the public	258,727	241,079	213,156	188,718	180,467
Total liabilities	**366,486**	**351,276**	**312,940**	**274,242**	**240,630**
Of which:					
Deposits from the public	297,597	292,293	260,907	226,118	201,450
Deposits from banks	11,328	15,376	12,534	13,107	6,419
Bonds and Subordinated debt notes	15,491	12,308	15,071	10,201	13,129
Shareholders' equity	28,474	24,880	21,483	19,182	18,678
Total equity	**29,238**	**25,478**	**22,148**	**19,727**	**19,193**
Additional data:					
Share price	1,835	1,848	2,094	1,236	1,601
Dividend per share (in Agorot)	84.65	49.88	12.41	4.19	21.92
Average number of positions at the Group during the year	8,363	(3)8,113	7,957	8,431	8,542
The number of positions at the Group at the end of the year	8,404	(3)8,207	8,036	8,027	8,509
Ratio of fees and commissions to total assets(1)	0.90	0.96	1.02	1.02	1.22

Footnotes:
(1) The ratio is computed for the three months ended at the end of the reporting period.
(2) The Directive regarding Net Stable Funding Ratio is being implemented as from December 31, 2021.
(3) Improvement in computing of the data.

For details regarding the decision of the Bank's Board of Directors dated March 10, 2024, to distribute a dividend in the amount of approx. 14.86 Agorot per share, see below "Dividend distribution" and Note 24 C to the financial statements.

Data for 2023, excluding ICC

	Year 2023		Year 2022	
	Actual	Excluding ICC(1)	Actual	Excluding ICC(1)
	n NIS millions			
Net Profit Attributed to the Bank's Shareholders	4,192	3,966	3,495	3,305
	in percentage			
Return on equity	15.7	(2)15.4	15.1	(2)16.1
Efficiency ratio	49.6	45.9	55.8	51.5
Ratio of balance of allowance for credit losses for credit to the public, to balance of credit to the public	1.60	1.50	1.31	1.23
Ratio of credit loss expenses to the average balance of credit to the public	0.59	0.50	0.18	0.14

Footnotes:
(1) The data for ICC has been totally eliminated, with no calculation in respect of the alternative use of the risk assets that would become available as a result of the separation as well as the yield produced by them and with no calculation of the gains produced by the realization of the holdings in ICC and the yield produced by the investment thereof in an alternative activity.
(2) In congruence of that stated above, the capital has been standardized so as to maintain the actually existing capital adequacy level, and accordingly, the return on equity has been standardized.

For details regarding the separation of ICC from Discount Bank, see below.

Developments in the market price of the Discount share

	Closing price at end of the trading day			
	March 6, 2024	December 31, 2023	December 31, 2022	Change in 2023 in %
Discount share	1,868	1,835	1,848	(0.7)
The TA 5 Banks index	3,664.19	3,623.58	3,280.79	10.4
The TA 35 index	1,954.66	1,865.31	1,796.92	3.8
Discount market value (in NIS billions)	23.11	22.70	22.86	(0.7)

For details regarding the consolidated statement of profit and loss for the last five years and consolidated balance as of the end of the last five years, see below in Appendices 4 and 5 to the annual report, respectively.

Discount Group Segment of Operations - Condensed Description

The report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks (hereunder: "regulatory operating segments"). The regulatory operating segments have been defined by the Supervisor of Banks, based on the characteristics of customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments, as follows:

"Household segment" – private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.
"Private banking segment" – private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.
"Minute businesses segment" – businesses, the annual turnover of which is lower than NIS 10 million.
"Small businesses segment" – businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.
"Medium businesses segment" – businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.
"Large businesses segment" – businesses, the annual turnover of which is equal to or exceeds NIS 250 million.
"Institutional Bodies Segment" – activities with institutional bodies, as these are defined in the Reporting Directives (see Note 29 A to the financial statements).
"Financial management segment" – includes: trading activity, asset and liability management activity, non-financial investment activity and other activities.
"Other segment" – including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

According to the instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), according to the accounting principles accepted by U.S. banks in the matter of operating segments (ASC 280). The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other.

For additional details, see "Activity of the Group according to regulatory segments of operations – principal quantitative data and main developments" in Chapter B hereunder, Notes 29 and 30 to the financial statements and "Activity of the Group according to Regulatory Segments of Operation – Additional Details" in chapter "Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof".

A Summary Description of the Principal Risks

Risk environment. Risk of impairment in the Group's value and its ability to attain its goals, deriving from factors and events external to the Group, including economic, financial, regulatory, social, political, geopolitical, cyber threats, business continuity events and from internal factors and events.

Overall impact of credit risk. Risk of impairment as stated, as a result of the deterioration in the ability of borrowers to honor their obligations.

- **Quality of borrowers and collaterals risk.** Risk of impairment as stated, as a result of deterioration in the quality of borrowers and/or in the value of the collaterals.
- **Industry concentration risk.** Risk of impairment as stated, as a result of deterioration in the business activity of a certain economic sector.
- **Borrower/groups of Borrowers concentration risk.** Risk of impairment as stated, as a result of the considerable exposure to a single borrower and/or to several borrowers belonging to one business group, which, in the case of changes in the economic situation, might lead to increased severity in the potential impairment of the credit portfolio, inter alia, because of the risk of contagion.

Overall impact of market risks. Risk of impairment as stated, as a result from changes in the economic parameters of the financial markets, and of their volatility that affect both the economic value and also the regulatory capital ratio.

- **Interest rate risk.** Risk of impairment, as stated, due to parallel and non-parallel movements in the return graph, and the effect of the optional terms inherent in the different financial instruments.
- **Inflation and exchange rate risk.** Risk of impairment as stated, as a result of the effect of changes in inflation rates or in exchange rates, including the effect of derivatives and transactions in futures on the gaps between assets and liabilities.
- **Share price and credit spreads risks relating to the holding of securities.** Risk of impairment as stated, as a result of erosion in the value of securities having credit risk and in the value of non-financial investments, including funds, due to fluctuations in prices.

Liquidity risk. Risk to the stability of the Group resulting from the inability to provide its liquidity requirements and the difficulty in honoring its liabilities, due to unexpected developments, as a result thereof, the Group would be obliged to raise funds and/or realize assets in a manner causing it material losses.

Operating risk. Risk of a loss, as a result of impropriety or failure of internal processes, failure of the Group's systems, external events, including business continuity events, human errors, fraud and embezzlements or as a result of the absence of proper control processes.

IT risk. Operational risks affecting IT systems in production, cross-organizational IT processes and new activities: project risks and risks associated with the launch of systems into production. Likewise, a risk of business harm to the value of the Group and to its ability to attain its goals, as a result of lack of technological preparedness, including in business continuity situations.

Data protection and cyber risks. Risks of harm, as a result of events during which attacks or phishing fraud are perpetrated on the computer systems and/or on the computer-based infrastructure systems, at the Bank or at the premises of third parties, by, or on behalf of, adversaries (from either outside or inside the corporation).

Legal and regulatory risk. Legal risk is the risk of loss, inter alia, as a result of absence of the possibility to legally enforce fulfillment of a contract, or from exposure to legal proceedings against the Bank, or from exposure to fines or penalties, punitive damages resulting from supervisory activities, as well as from private settlements, etc. Legal risks include regulatory risks of a legal nature, stemming, among other things, from the non-implementation, or incorrect implementation of various regulatory instructions, under the power of which, various duties are imposed on the Bank.

Cross-border risks. Risk of loss, as a result of a statutory or regulatory sanction, or harm to the reputation, as a result of noncompliance with foreign statutory or regulatory provisions, applicable to the cross-border activity of the Group and as result of the Group's responsibility for the cross-border activity of its customers, conducted by means of the services of the Bank.

Compliance, Prohibition of Money Laundering and Prohibition of Financing of Terror risks. Risk of loss, as a result of statutory or regulating sanction, or harm to the reputation, as a result of non-compliance with the provisions of the law or regulation, in the area of Bank/customer relations and/or in the field of prohibition of money laundering and prevention of the finance of terror.

Reputation risk. Risk of impairment in the Group's value and its ability to attain its goals, as a result of damage to image following true or erroneous publications, external events, including events in the competition environment and/or internal events, including mistaken business decisions, material computer failures, strikes, embezzlements, material violation events in the cross-border risks, compliance risks and money laundering fields, etc.

Strategic risk. Business risk, either of action, such as misled business decisions or improper implementation of business decisions, or neglect, such as, lack of response to changes in competition which, if it materializes, could lead to impairment in the Group's value and its ability to attain its goals.

Environmental and climate risks. The risk of loss as a result of the Group's exposure to activities that have the potential to cause environmental damage or that could be impacted by such, as well as the risk of loss as a result of the Group's possible exposure to physical risks or transition risks relating to climate changes and events.

Model risks. The ever-growing use of modeling in banking exposes the Bank to the risk that decision makers will rely on the results of models that are inappropriate or unsuitable to the business and economic environment, such as to possibly have implications on the profitability of the Bank and Group, on the reliability of the financial statements, damage the reputation, and more.

For additional details, see below in Chapter C of the Board of Directors and Management report – "Risk review" and in the document "Disclosure according to the third pillar of Basel and additional information on risks".

Disclosure according to the 3rd Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented below in Chapter C "Risks Review" and in the document "Disclosure according to the third pillar of Basel and additional information on risks". The document is available for perusal on the Bank's website together with the Bank's 2023 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2023 annual report.

Goals and business strategy

The strategic plan, which was formed in the course of 2020, directs towards the realization of an ambitious vision of being **the best financial institution for its customers, which creates maximum value to its shareholders over time**. The strategic plan is made up of three central pillars – winning in traditional banking, groundbreaking innovation, leveraging the power of the Group.

First pillar – winning in traditional banking

As part of the changes affecting the banking sector, the Discount Group will accelerate the evolution of banking activity with a view of improving competitive ability and increase its market share and profitability in banking activity. The said acceleration is to be done by way of focusing on four areas:

Winning customer experience

Goal: to be the bank with the best customer experience in the system

Changing reality requires us to improve customer experience quickly and qualitatively – customers expect another level of service, and the base for comparison is not necessarily other banks but the organizations leading in customer experience provided by them. Discount shall act to create a differentiating competitive advantage by way of a winning customer experience. In order to realize the vision and become the best Bank for its customers, Discount Bank has launched several strategic projects, intended to turn the whole Bank into a customer focused organization.
These projects require a significant and extensive effort by all units of the Bank, which would lead to a fundamental and deep change in work procedures as well as in service and conduct principles.
Such gradual implementation would lead to improved availability for customers, closure of a full treatment circle and accessibility to products and services customized to the needs of the customer.
In order to measure the success of the fundamental change process, use would be made of the Net Promoter Score index. This index has been successfully implemented by thousands of leading organizations around the world. This index has been proven as directly connected to the increase in income, to attracting new customers and increasing customer loyalty.
Within the framework of this mechanism, the Bank integrated processes involving attentiveness to customers, deep and methodological analysis of feedback from customers through translating the messages into effective initiatives for improving customer experience at all his interface points with the Bank.

Significant growth and increasing market share in focal segments

Goal: Growth of the credit portfolio and of income at a rate higher than that of the banking system

- The Bank will act to increase income at a faster pace than market growth, and to maximize the potential of income from interest and fees and commissions, as well as non-interest financing income. The Bank shall endeavor to increase its credit portfolio at a faster pace than market growth, mainly in the housing, small businesses and commercial banking fields and in additional focal fields, and all while maintaining the quality of the credit portfolio;
- In order to enable the said growth, the Bank implements new operational models in retail and corporate banking areas, which are to include, inter alia, changes in service, sales and operating layouts.

Banking excellence

Goal: Creating a qualitative organizational platform based on efficiency, operational excellence and a high level of performance

- In order to support all the strategic goals of the Bank, it is the Bank's intention to integrate operational excellence that would support customer experience, would reduce errors and operating risks and assist in obtaining significant efficiency;
- In this respect, the Bank will introduce automation, digitization and improvement of processes enabling greater efficiency, shortening of reaction time and improvement of measurement and monitoring capabilities, and will integrate additional new work methods improving central processes;
- The Bank acts towards the transfer of operational activities from the first line to the Operations Division;
- The Bank will continue to carry out the efficiency measures with an emphasis on diverting operations to the digital channels, optimization of real estate properties and savings in purchases expenses and other expenses.

Winning organizational culture

Goal: Integration of a winning organizational culture that promotes the strategy of the Bank by means of guiding leadership and employee engagement, the highest in the banking system

With the understanding of the importance and centrality of the Bank's employees in providing the best service to customers and the ability to realize the strategic plan, the Bank would act in a number of fields:
- The Bank will continue to strengthen its managers and employees while developing leadership in accordance with the Discount spirit and striving to maximize the potential of employees and managers by means of qualitative career development processes;
- The Bank will act in order to improve the sense of commitment and the organizational engagement of employees and managers, while leveraging the relocation to the joint Campus at the "Elef" site in Rishon LeZion, all this, in order to become the best Bank for its employees;
- The Bank will act in order to adopt agile work methods that would support improvement in customer and employee experience and would help in improving performance capabilities and the shortening of response time.

Second pillar – groundbreaking innovation

Goal: Become a leading financial player in the new banking in Israel through the implementation of pioneering and competition creators banking models for customers of all banks

The financial field in general and banking business in particular, is in the midst of an accelerated process of change. The change is motivated by diverse trends headed by an ever growing transition to digital banking, competition encouraging regulation, entry of new players into the traditional banking areas, and growth in expectation of customers for more varied and customized value offers than in the past.
The competitive and singular positioning of the Discount Group which, on the one hand, is large enough in order to lead a change, and on the other hand is small enough in order not to be deterred by the implications of the change, creates for it a significant opportunity to establish its position as a leading banking-financial group, which encourages competition in the system, and to increase its market share, inter alia, through the implementation of the following measures:
- Continuing to intensify the cooperation and relationship with the Fintech community in Israel and abroad, with the aim of offering the Bank's customers and customers of all banks, the most advanced services and products, both in the field of banking and in tangential fields;
- Initiation and establishment of new ventures, off-banking, through close cooperation with Fintech companies and other third parties having a unique DNA, in favor of creating innovative products and services, designed for customers of all banks[1];
- Enlarging the activity of PayBox as the digital wallet for the management of off-banking payment accounts, offering also financial products and services, including those of third parties, designated for customers of all banks;
- Leveraging the open banking reform in favor of expanding its value offer to customers, while making services and products accessible on the digital channels.

1 For details regarding the establishment of Greenlend, see hereunder.

Third Pillar – maximizing the value of the Group

Goal: The subsidiary companies are leading growth

- The Bank, as a holding company, will continue the implementation of the unique strategies defined for the central subsidiaries – IDB Bank, MDB, Discount Capital and ICC[2], with the aim of modifying their operations to the new competitive environment;
- The Bank, as a holding company, will continue to initiate significant moves that create value in the portfolio of Group companies, while maintaining activity in accordance with corporate governance rules;
- The Bank will continue to act to identify and utilize possible synergies among the group companies, both in the field of revenues and in the field of expenditure, which may contribute significantly to the Group's economic value;
- The Bank will continue to promote assembling all Head Office units of the Group companies in a joint campus located in the Millennium Complex in Rishon LeTzion, with the aim of accelerating the realization of synergies and work processes, thus achieving significant real estate efficiency[3].

The strategic plan goals

Subsequent to updating the strategic plan formulated in 2020, which includes a financial plan for the years 2021 through 2025, and in light of the reduction in the level of uncertainty associated with the Corona crisis and the stabilization of the economy during 2021, the Bank's Board of Directors decided on March 8, 2022 to approve the following goals:
- a return on equity goal exceeding 12.5% in 2025;
- an efficiency ratio goal of less than 55% in 2025;
- a net profit goal which will exceed NIS 3.5 billion in 2025;
- a continuation of dividend distributions according to the existing policy, namely, up to a rate of 30%. As progress is made in executing the plan, the possibility of raising the dividend rate[4] will be examined.

Following are actual data regarding components defined as goals of the strategic plan:
- a return on equity goal of 15.7% in 2023 (2022: 15.1%);
- an efficiency ratio of 49.6% in 2023 (2022: 55.8%);
- a net profit of NIS 4,192 million in 2023 (2022: NIS 3,495 million).

As appears from the data presented above, the goals of the strategic plan have been achieved in full.

Forward-looking information. The aforesaid reflects the plans of the Bank's Management and its intentions, paying attention to information already in its possession at the time of preparing the reports with regard to the development of the banking sector, to the macroeconomic forecast, including in relation to an increase in the rates of interest and inflation and to the uncertainty associated with planning for several years ahead. Material changes in the economic and regulatory environment or in the geo-political or defense situations, technological developments, actions of competitors operating in the banking sector and other potential competitors, and changes in consumer patterns and customer expectations, which are not under the Bank's control, might results in changes in the ability to execute the Bank's plans as they exist at the time of publishing the statements. Included in that stated above, the economic impact of the "Iron Swords" War, in particular when considering the duration of the fighting and its force, which at this stage cannot be assessed, may materially affect the Bank's ability to carry out its plans, at least in the near future. For the definition of the term "forward looking information", see "Appendix No. 4 – Glossary".

2 See below "The separation of ICC from Discount Bank".
3 The relocation of the Head Office units of the Bank and of MDB was completed during the reported year. See below "Discount Campus".
4 For details regarding the decision taken on August 13, 2023 to update the policy, and for details regarding the actual distribution rate from the profits of the third quarter of 2023 and from the profits of the fourth quarter of 2023, on the background of the "Iron Swords" War, see "Dividends Distribution" below.

Environmental, social and governance strategy. Discount Bank, which raised the banner of becoming the best financial institution for its customers, formed a significant and challenging ESG strategy, as approved by the Board of Directors on February 28, 2023. As part of the implementation of the strategy that had been formed, Discount Bank will promote a connection between environmental, social and governance aspects and the core business, organizational and social activities of the Group, while focusing on three central fields:
- Social mobility and financial inclusion – promotion of enabling banking, which acts toward increasing financial accessibility for disadvantage populations, alongside support for actions contributing to the reduction of gaps in the social and geographic peripheral areas in Israel through education and knowledge.
- Diverse and equal employment – promotion of employment diversity and employing staff at the Bank coming from employment challenged sectors, alongside the supporting of plans enlarging employment of such sectors in the Israeli economy as a whole. Alongside this, the Bank will act towards the creation of an embracing and enabling work environment.
- Green future – Promotion of green conduct in the Bank's operating and business activity, with a view of reducing its environmental effects.

In May 2023, the Bank's Board of Directors approved goals and performance indices for the year 2030:
- Increasing the financing scope for environmental projects to NIS 12 billion (NIS 6.6 billion at the end of 2022)[5];
- Reducing the carbon footprint of the Bank's operational activity by 40% (in relation to 2022)[5];
- The ratio of engaging new employees coming from under-represented populations to total engagement of new employees will reach 25% (12% in 2022)[5];
- The ratio of females in management grades (in the Bank's senior management forum) shall not fall below 50%;
- Maintaining female representation on the Board of Directors of at least 30%.

Points of emphasis for 2024

It had been decided to strengthen in 2024 the banking excellence footing with a view of improving the operating model and enable continuing efficiency in expenses. Within this framework, two projects have been added to the strategic map:
- Organizational effectiveness project focusing on transformation in the operating model with the aim of making manpower, performance quality and SLA more efficient, and also on greater efficiency regarding purchase agreements of the Bank aimed at saving in expenses.
- Agile project, the purpose of which is a change in the development model by means of transition to an agile method of work in areas of strategic importance to the Bank, and the integration of agile work principles across the organization.

Preparation for a new strategic plan

In view of the significant progress made in the implementation of the multi-annual strategic plan for the years 2021-2025, and on the background of the changes in market conditions, including the beginning of the lowering of interest rates and the reduction in rates of inflation trends, the Bank has started processes of strategic refreshing and structuring a new multi-annual financial plan. This plan will reflect on the one hand the challenges deriving from market conditions and the need to promote efficiency measures, and on the other hand the opportunities for the continuation of growth and for leading innovation, while updating the operating model. In the first stage, the Bank had conducted a move, not yet completed, for the examination of all its strategic projects, for the focusing and reduction thereof, looking at their impact and effectiveness potential.
In examining the plans, as stated, the need arose to relate to the challenges presented by the "Iron Swords" War and its material impact on the state of the economy in general and on the banking sector in particular, including, inter alia, the economic burden of the War and the financing thereof, impact on the employment and product fields, impact on the condition of borrowers and their loan repayment ability, Government initiatives to increase the tax burden on banks, etc. This examination is, inter alia, performed with a view of forming initiatives that would help the Bank in improving its performance over time and support its customers during this uneasy period. Performance of the moves

5 The scopes at the time of approving the goals.

is complex and challenging in view of the uncertainty regarding the length and intensity of the War and respectively, the severity of its economic implications.
The Bank intends to complete the said moves until the end of the third quarter of 2024, so that the work plan for 2025 would be based already on the new strategic plan.

Chapter B - Explication and analysis of the financial results and business position

Material trends, occurrences, developments and changes

Management's handling of current material issues

In 2023 the Discount Group continued to work determinedly to implement the strategic plan and to realize the goals that it had set for itself, alongside further responsible and significant growth in all its areas of focus. On October 7, 2023, the "Iron Swords" War broke out. The War had presented significant challenges in many areas, and is affecting and is expected to affect the Israeli economy in general and the banking sector in particular, including the Bank. The Bank's financial base and its capital infrastructure remain stable and are being stringently managed and even strengthened during the last quarter. The ratio of common equity Tier 1 increased to a rate of 10.71% and the liquidity coverage ratio amounts to 130.7%. This is the infrastructure that allows the Group to confront the challenges presented by the condition of the economy, support customers of the Bank and continue growing.
The central challenges and issues in 2023 were:

The "Iron Swords" War

General. The "Iron Swords" 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. 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 at first into low-key conflicts and thereafter developing into high intensity exchange of fire on a daily basis.
Following these events, tens of areas in the South and the North have been evacuated, over 100 thousand evacuated residents.
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.
Concurrently, another front has been opened in the south by the Yemen Houthi Organization, operating in two parallel channels: one, missile and unmanned aerial vehicles (UAV) attacks directed towards Israeli territory, principally towards Eilat; and the other, operations in the maritime space – disruption of the global maritime activity in the Bab-el-Mandab Straits – with the Organization threatening to hit any vessel having direct or indirect connection to the State of Israel. This activity has a direct impact on economic aspects of importing/exporting goods from countries of South and East Asia and of cost of transportation, comprising a threat to international trade and to the global economy.
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 in a low-key intensity, 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 breakout of the War, the Bank's Management focuses significant administrative attention on 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 (see hereunder).

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.

With the declaration of the state of emergency, a situation room at the Bank and Group levels was put into action. 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. With the continuation of the event, and subject to guidelines of the Home Front Command, the Bank had acted and is acting to resume operation and services to the maximum routine.

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 structured risk attributed to the credit field has increased. The Bank expressed this increase mostly in the collective allowance model in the second half of 2023. 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. For details regarding Moody's decision to lower the credit rating of the State of Israel, and for details regarding the decision of Fitch to put the credit rating of the State of Israel under "negative surveillance" and the decision of S&P to lower the credit rating outlook of Israel from "Stable" to "Negative", see "Rating the Liabilities of the Bank and some of its Subsidiaries". For details regarding the direct effect on the Bank's capital adequacy, in the event that the credit rating of the State of Israel would be reduced, see "Capital and Capital Adequacy" below.

Credit risks. For details see "Credit Risks" in "Chapter C" - Risks review". 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 Swords War period". For details regarding how the international rating agencies have related to the above developments and to the possible implications of the "Iron Swords" War, see "Rating of Liabilities of the Bank and some of its Subsidiaries" below.

Interest and foreign currency risks. For details see "Market Risks" and "Inflation and exchange rate risk" in "Chapter C" - Risks review".

Growth in credit losses. It is estimated by the Bank that the "Iron Swords" 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 and fourth 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 986 million were recognized in the second half of 2023, as compared to expenses of NIS 336 million in the corresponding period last year, an increase of 193.5%, and compared to expenses of NIS 516 million in the first half of 2023, an increase of 91.1%. This increase stems, mostly, from the implications of the War, and in particular from the increase in the collective allowance for credit losses.

See below ”Credit loss expenses” in the section ”Developments in income and expenses ”. 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 December 31, 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.

Dividend distribution. For details regarding the decisions of the Bank's Board of Directors on November 26, 2023 and on March 10, 2024, to distribute a dividend of 15% of the third quarter of 2023 profits and 20% of the fourth quarter of 2023 profits, respectively (this, compared to a dividend at the rate of 30% of the profits for the second quarter of 2023), see “Dividends distribution”.

Forward looking information. The Bank's estimates regarding the possible implications of the ”Iron Swords” 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 original outline (on December 17, 2023 , also the Bank of Israel extended the period of the outline to six months). 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 Swords War period”.

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 search and rescue forces, 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 Swords War period”.

Support for the community - 'Keren Or' Foundation. 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 amount to an initial sum 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 Swords War period”.

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 Bank has submitted claims in respect of entitled employees and on behalf of evacuee employees, exercising to the utmost their rights respecting the National Insurance Institute and the Tax Authority.
The total cost of supporting Discount's customers and supporting community commitments is estimated at approx. NIS 276 million (not including the estimate of the impact of the last outline) (for details regarding the effect of the support upon the financial statements, the assumptions used in the estimate and of forward-looking information aspects, "Support of customers during the Iron Swords War period").

The separation of ICC from Discount Bank

On January 31, 2017, the Increase in Competition and Reduction of Centralization in the Israeli Banking Market Law (Legislation amendments), 5777-2017, was published in the Official Gazette ("the Law").
Within the framework of implementation of the Law, in the first stage, the credit card companies, IsraCard and MAX (formerly LeumiCard) were separated from Hapoalim Bank and Bank Leumi, respectively, due to the fact that they held assets of a value exceeding 20%, and therefore defined as "a bank with Wide-Ranging Activity". Accordingly, at that stage, the Bank is under no duty to sell ICC.
With respect to ICC, on January 31, 2021, a period of two years started, which ended on January 31, 2023, during which, the Minister of Finance, with consent of the Governor of the Bank of Israel and approval by the Finance Committee of the Knesset, was empowered to instruct the separation of ICC from Discount Bank upon existence of certain terms stated in Section 11B(d) of the Banking Law (Licensing), 5741-1981 ("the Banking Law").
According to the provisions of Section 12(b)(3) of the Law, a committee had even been established, among the duties of which was recommending to the Minister in the matter of applying his authority to enforce the duty to sell ICC, as stated. On December 21, 2022, the committee published its recommendation to the Minister of Finance, as accepted by the majority of the committee members, which stated the position that the Minister should apply the said authority. The recommendation document contained also the minority opinion of the Supervisor of Banks, who was not a party to the opinion of the other committee members. On January 18, 2023, after obtaining the consent of the Governor of the Bank of Israel, the Minister applied to the Chairman of the Finance Committee of the Knesset, requesting approval of the Committee to the draft Banking Regulations (Licensing)(A bank with Wide-Ranging Activity), 5783-2023. As part of the application, the Minister referred also to the possibility of acquisition of a charge card company by institutional bodies, and noted that on the background of developments in the market and the provisions of Section 10 of the Law, he had instructed the formation of a designated team at the Ministry of Finance to study this issue.
On January 30, 2023, the Finance Committee of the Knesset approved the Banking Regulations (Licensing) (A bank with Wide-Ranging Activity), 5783-2023, ("the Regulations").
According to the Regulations, the Bank is bound to sell the means of control of Israel Credit Card Company Ltd., held by it, within a period of three years from the effective date (date of publication of the Regulations in the Official Gazette), or until the end of four years in certain circumstances, to the extent that a public offer outline would be decided upon. Furthermore, the provisions stated in the Law would apply with respect to the sale.
In addition, the following instructions, inter alia, apply:
- During the period from the effective date and until the end of a period of the later of five years or three years from date of separation, the Bank has to conduct the operation of issue of charge cards issued by it, by means of an operating company, and to enable it to be a party to the charge card agreement;
- As from the end of one year from the effective date and until the end of a period of the later of five years or three years from date of separation, the Bank is not permitted to conduct by means of one operating company, the issue of more than 52% of the total new credit cards issued to Bank customers;
- A fixed mechanism for the distribution of income derived from the issue operation of charge cards and from use of charge cards by customers, between the Bank and the charge card company, so that the said distribution of income would be in accordance with an agreement signed by the parties in 2022;
- Restriction to approaches made to customers regarding renewal of credit cards.

It is noted that the restrictions relating to the duty to enable the credit card company to become a party to the agreement, the forbiddance to conduct through one operating company the issue operation of more than 52% of total new credit cards, and restrictions on approaches to customers regarding the renewal of credit cards, apply also to some of the other banks.
The Regulations entered into effect on January 31, 2023. It is noted that at that date the Minister of Finance issued an open call for the public's positions in which he announced, as part of his decision in the matter of amending the definition of a bank with Wide-Ranging Activity, the formation of a team at the Ministry of Finance headed by the Officer in Charge of Budgeting, the Legal Counsel of the Ministry of Finance and the Commissioner of the Capital Market, Insurance and Savings, for studying the issue of the differentiation existing in the Law between the acquisition of a charge card company from a bank with Wide-Ranging Activity (primary acquisition) and the acquisition of a charge card company from an entity which had purchased such a company from such a bank (secondary acquisition), and whether it is just and equitable to leave such a differentiation intact. The question of the possible effects of large institutional bodies controlling charge card companies is also supposed to be studied.
On May 11, 2023, the team for the examination of the holdings by institutional bodies of charge cards companies ("the Team") published its recommendations.
The central recommendation of the Team is the amendment of Section 10 of the Law, whereby a large institutional body shall no longer be debarred from acquiring means of control of a charge card company from a bank with wide-ranging activity (applying also to a primary acquisition). The practical significance of this recommendation, if implemented, is that the Bank would be able to sell its holdings in ICC also to a large institutional body. In addition, as a complementary act, the Team, inter alia, recommended a clear structural separation between the charge card company and the institutional body holding it, as well as stating restrictions in respect of material operational interfaces between institutional bodies and banks. A Memorandum for the amendment of section 10, as stated, was published on November 27, 2023. Within the framework of the published Memorandum, it is also proposed to state that "a bank with Medium-Ranging Activity " – defined in the Memorandum as a bank whose asset value exceeds 5% of the total asset value of all banks in Israel but which does not exceed 10% - shall not be permitted to control a charge card company, subject to transitional instructions, as stated in the Memorandum. Within the framework of the Memorandum's public comment stage, the Bank submitted on December 18, 2023, its standpoint on the matter, the essence of which relates to the fact that in view of the time that had elapsed since the date of passing the resolution obligating the Bank to sell its interest in ICC, including the present condition of the Israeli economy, the need exists for the prompt advancement of the Memorandum and for extending the time schedule for the sale. At a date proximate to the date of publication of this Report, a Bill for the amendment of the said section has not yet been published.
Following the decision of the Minister of Finance and approval of the Regulations, the Bank recorded a provision for the balance of taxes due on its share in the profits of ICC, which in accordance with accounting principles, had not been provided for in the past, in the amount of NIS 50 million. The said provision was included in the report for the first quarter of 2023.
The Bank is preparing for effecting the separation, and, inter alia, has retained the services of a foreign investment bank to assist in the process.
Within the framework of a joint distribution agreement with El-Al Company, El-Al was, inter alia, granted a "phantom" type option, entitling it to economic rights in ICC (of a value equal to 8.75% of the appreciation in value of ICC, exceeding the amount of NIS 1,800 million). The option would be exercisable only in the event of sale or issuance of ICC, in accordance with the terms stated in the related agreement, and would be settled in cash. (The equity capital of ICC as of December 31, 2023, amounts to NIS 2,447 million).
According to an assessment in the hands of ICC, the fair value of the "phantom" option (within the meaning of the term in accepted accounting principles), based, inter alia, on data regarding the price-to-book ratio of financial corporations traded in Israel as well as on data regarding transactions for the acquisition of the credit card companies IsraCard and MAX (being published information only, regarding the agreement, within the framework of which, Harel Investments was expected to acquire all the shares in IsraCard, and the agreement, within the framework of which, CLAL Insurance Enterprises Holdings acquired all the shares in MAX, based on their reports to the public), and on the assumption that ICC will utilize to the options of the distribution of dividends, according to the option agreement, within the framework of the future negotiations to formulate the terms of sale of the holdings in ICC at an amount of approx. NIS 52 million (approx. NIS 37 million after tax effect). ICC recognized in the first quarter of 2023 a liability in respect of the said option. Considering the tax effect and after deduction of the share of the First International

Bank in the profit of ICC, the recording of the option in the said amount reduced the net profit of the Bank in 2023 by a net amount of approx. NIS 24 million.
It is emphasized that at this stage, the Bank is in the midst of the primary preparation phases for the separation from ICC, and that decisions with respect to the separation outline have not as yet been taken. This issue relates to a transaction of a scope expected to be significant, where the acquisition price to be determined might be affected by the dynamics in the market, as would exist at the time proximate to the date of the transaction, by the path of development of ICC in comparison to its competitors, by the outline for the execution of the separation, by possible competition between potential buyers and by different macro-economic variables. In light of the abovesaid, the acquisition price might be very materially different from the price of ICC seemingly grossed up in the fair value assessment of the option.
It is noted that at this stage it is not possible to assess the duration of the "Iron Swords" War and its force and its economic implications upon the economy, and accordingly it is not possible to assess its impact on the sale process, if at all.
For additional details, see the Immediate Reports dated December 22, 2022, January 3, January 19 and January 31, 2023 (Ref. Nos. 2022-01-154045, 2023-01-001587, 2023-01-009330 and 2023-01-012882, respectively), the details contained therein are presented hereby by way of reference.
For details regarding the said Law, see "Legislation and Supervision" in Chapter "Corporate Governance, Audit and Additional details on the business of the banking corporation and management thereof". For details regarding the contribution of ICC to the profits of the Discount Group see below "Main Investee Companies. For details regarding the data for the "ICC" segment, within the framework of Managerial Operating Segments, see Note 30 to the financial statements below.

The rise in the CPI and in the interest rate and their effect on the operations of the Bank and its customers

The CPI rose in 2023 by 3%, following a rise in 2022 of 5.3%. Moderation occurred also in the global inflationary environment, particularly in the core inflation, though it continued to stay at a high level. The Bank of Israel interest rate continued to rise at a quick pace, and stabilized at 4.75% in May 2023, as compared to 3.25% in December 2022. In January 2024, the Bank of Israel lowered the interest rate to 4.5%, following a long period in which the interest rate remained unchanged. The rise in interest rates during the year continued also around the world, reaching a level of 5.25%-5.5% in the US and 4% in the Eurozone.
As detailed in the section "Market risks", the Bank is exposed to market risks, including interest risk. As detailed in this part, the rising interest has a positive effect on the Bank's income, the average interest rate in 2023, rose by approx. 3.2% compared to 2022, and according to the Bank's assessments, the Bank's financing income increased by approx. NIS 2.2 billion as a result of the rise in interest, in 2023, compared to the corresponding period last year.
With respect to the increased in inflation, the Bank is exposed to changes in the CPI in a way that there is an excess of assets over liabilities that are CPI-linked in an amount of approx. NIS 17 billion, at the end of 2023. The rise in the CPI contributed approx. NIS 565 million to the Bank's income in 2023.
The rise in the CPI and in the interest rate may result in an increased burden of loan repayments of burrowers, for households in particular, and in their impaired repayment ability. The Bank's Management gave expression to these effects in the estimate of the collective allowances, according to the existing models, however, their effect may also be reflected in future periods and also require making allowances for specific borrowers.
The principal measures adopted by the Bank in order to face the effects of the main changes in interest and in the CPI are:
- Monitoring interest exposure;
- Entering into interest and CPI hedge transactions;
- Strict underwriting mechanisms for the granting of credit and the monitoring of the credit portfolio quality;
- Cash flow examination of real estate entrepreneurs.

Concurrently, at the level of activity vis-à-vis its customers, the Bank takes the following steps:
- Allowing customers having certain characteristics, the option to reduce the amount of the monthly mortgage repayments to the level existing in September 2022, prior to the last six raisings of the interest rate; the amount deferred would be repayable as from the end of 24 months, spread over 36 installments, with no interest charge;

- Offering the option of a full/partial pause in mortgage repayments together with extension/no extension of the mortgage repayment period;
- Extension of the "prime" mortgage track;
- Internal recycling of the mortgage;
- In addition, the Bank offers its customers deposits bearing interest.

For details regarding relief measures granted to customers as a result of the "Iron Swords" War, see "Support of customers during the "Iron Swords" War period".
For details regarding credit and deposit margins, see below "Composition of the net financing income". See also Note 29 to the financial statements and Appendix no.1 to this Report.

Discount Campus

The finishing work at the Campus concluded during the reported period, and the relocation of all the Bank's and MDB's units planned to move to the campus were completed in accordance with the original plan.
In November 2023, a certification of compliance with the LEED Gold V4 Standard of the US Green Building Council was received. In February 2024, the Group received the "Outstanding Project in the Building Field" Prize, awarded by the Construction and Infrastructure Engineers Union in Israel, for the year 2023.
In view of the expected separation of ICC from Discount Bank, the Boards of Directors of ICC and of the Bank approved in July 2023, the sale by ICC of its share in the Discount Campus to the Bank or one of its subsidiaries. The transaction is not yet consummated and, consummation thereof is expected in the upcoming months. The Bank is examining alternatives for the occupancy of the areas designated for ICC by additional units of the Bank and/or MDB. The Bank estimates that the said change will have no material effect.
See Note 16 section K to the financial statements and "Fixed assets and installations" below.
In the course of 2024 the Bank is expected to study possibilities for the realization of its rights in a number of properties in Tel Aviv, all in accordance with market conditions.

Issuances

Issue of debt instruments. On January 18, 2024, the Bank, by means of Manpikim, completed the issue of financial instruments intended to respond to the liquidity requirements, bonds (Series "P") were issued in a total amount of approx. NIS 1.56 billion, and at an effective margin of 0.85% against foreign countries bonds and commercial securities (Series 3) in a total amount of approx. NIS 1.1 billion and at a margin of 0.16% over the Bank of Israel interest rate.
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.
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.

PayBox

During the reported period, the Bank of Israel updated the operation permit of PayBox, in a way that allows it to engage in the acceptance of monetary deposits. In addition, PayBox obtained the consent of the Supervisor of Banks for the company's engagement in the business of credit brokerage. At the beginning of the third quarter, the company

began to pay eligible customers holding a PayBox card interest on the personal balance held through the Application. For details regarding the increase in the permitted volume of operations on payments Applications, see Proper Conduct of Banking Business Directive No. 251, in the Chapter "Legislation and Supervision".
In Shufersal's financial statements as of September 30, 2023, it was noted that Shufersal is considering a transaction for the sale of its holdings in PayBox, whether by way of admitting a partner or an investor to the financial operations of Shufersal or in another way. There is no certainty that any transaction for the realization of the holdings of Shufersal in PayBox would in fact materialize, including with respect to its scope, timing, manner of realization and its terms.
Data regarding operations. As of December 31, 2023, the number of users of the PayBox Application, whose registration as users includes the addition of means of payment, totaled approx. 2.4 million, growth of approx. 20% as compared to December 31, 2022. The number of active users, who made at least one transaction in the last 90 days, totaled at December 31, 2023 approx. 1.4 million users, growth of approx. 10.2% as compared with December 31, 2022. The turnover of the transfer of funds by means of the Application amounted in 2023 to approx. NIS 6.6 billion, growth of approx. 32% compared to 2022.
The customers' balance held with PayBox amounted at December 31, 2023, to NIS 747 million, as compared to NIS 495 million at December 31, 2022, an increase of 40.2%.

Greenlend

On March 5, 2023, the Bank and Ezbob Ltd., a company incorporated in England ("Ezbob"), signed a non-binding memorandum of understanding for the formation of an enterprise for extending consumer credit and credit to small and middle market businesses, to customers of all banks, by means of a company that would be controlled by the Bank (an auxiliary corporation) ("the company").
On August 1, 2023, the Bank received the approval of the Supervisor of Banks for the control in full and for the direct holding of means of control in the auxiliary company Greenlend Financial Solutions Ltd., which will engage in the granting of consumer credit and credit to small and middle size businesses, as well as in any other operation ancillary to the above operations, or which is required for their performance, under the conditions specified in the Supervisor's approval.
On September 18, 2023, the Bank, the company and Ezbob signed a binding shareholder agreement. In addition, the company and Ezbob signed a binding license and services agreement, according to which the company is expected to extend and manage credit by means of Ezbob's innovative technological systems. As of the said date, all conditions precedent relating to the agreements had been fulfilled.
70% of the company's ordinary shares are held by the Bank and 30% are held by Ezbob. According to the shareholders agreement, the Bank is providing the company with capital of NIS 163 million, and Ezbob is granting the company a perpetual technology usage license, worth approx. NIS 70 million. In addition, the Bank allocates in favor of Greenlend an amount of up to NIS 200 million, as detailed hereunder: shareholders loan – a renewable credit facility of up to NIS 100 million, of which Greenlend will be allowed to draw funds during the facility period.
Redeemable preferred shares (initiated by the company) – the possibility of an additional investment of up to NIS 100 million in consideration for the allotment to Discount of redeemable preferred shares of Greenlend, which will accumulate interest that will be paid only after the ordinary shareholders receive a return of 15% per year on their initial investment (amounting to NIS 233 million). The Bank has also pledged to provide the company with credit facilities at market terms.

Striving for a winning customer experience

In order to realize the vision and become the best bank for its customers, the Bank had introduced a comprehensive strategic effort intended to turn the whole Bank into a customer focused organization. This, in a significant and wide move that would engulf all units of the Bank and lead to a fundamental and deep change of work procedures and of service and behavioral principles.
Within the framework of this mechanism, the Bank implements processes of listening to customers, of in-depth and methodological analysis of customer feedback and the ability to translate the messages into effective initiatives improving customer experience at all his interface points with the Bank.

As an additional step in striving for a winning customer experience, the Bank has introduced already in 2022, a new and quick service of correspondence on the Application, which invites all Bank customers to approach the Bank and receive a reply within one hour at the most.
The index for the measurement of the success of the change is the Net Promoter Score (NPS). This index has been successfully implemented by thousands of leading organizations around the world. It has been proven that this index is directly related to the growth in income, to attracting new customers and to increasing customer loyalty.
The data is being collected within the framework of reviews performed by the Bank the results of which are being measured against the data of the launching year for the project (2020). The NPS of Discount reached 12% in December 2023, as compared to 2% in 2020. This compared to the average of the other large banking groups: 4% in 2023, as compared to -3% in 2020.

Additional issues

- **Special Payment for the Purpose of Achieving the Budget Objectives (Provisional Instruction) Bill, 5784-2024.** For details, see Note 8 K to the financial statements;
- **Termination of office of the President & CEO and additional changes in the Bank's Management and in its organizational structure.** For additional details, see "Board of Directors and Management" below;
- **Termination of office of the Chairman of the Board of Directors.** For additional details, see "Board of Directors and Management" below;
- **IDB Bank.** For details regarding proceedings concerning certain matters relating to IDB Bank's compliance plan, see below "Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations" in section "International Operations Segment - Additional Details";
- **Rating by Fitch.** Fitch rated the Bank for the first time in the first quarter of 2023. For additional details, see below "Rating the Liabilities of the Bank and some of its Subsidiaries";
- **Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus.** For additional details, see Note 16 K to the financial statements;
- **Increase in competition and reduction in concentration Law.** The preparation for changes in the financial system is continuing, both at the Bank and at ICC, following the Increase in Competition and Reduction in Centralization in the Banking Market in Israel Law including an examination of the separation of ICC from the Bank. For additional details, see Note 36 to the financial statements.

Principal Economic Developments

Presented below are the main economic developments that impacted the economic environment in which the Israeli banking sector, including the Bank, operated in 2023.
Growth. The year 2023 was marked by expansion in global economic activity, with very high differentiation between states. Despite concerns regarding the entry of the US economy into recession, the US economy demonstrated in 2023 growth at a rate of 2.5%. At the same time, the Eurozone presented growth at a rate of 0.5%.
In Israel, an exceptional regression took place in the GDP during the fourth quarter of 2023, at an annualized rate of 19.4%, being affected by the War, and in continuation of a certain slowdown already observed in the third quarter.
Private consumption, investment in fixed assets and exports recorded in the fourth quarter shrinkage at striking rates, while on the other hand, public consumption and defense consumption in particular, recorded exceptional expansion historically. In total for the year, the GDP grew by 2%, as compared to growth of 6.5% in 2022.
The labor market continued to demonstrate strength in the first three quarters of the year, and the wide unemployment rate dropped to 3.6% in September 2023, compared to 4.5% in December 2022. During the last quarter of the year, with the outbreak of the "Iron Swords" War, unemployment increased sharply, though followed later on by a quick recovery, and at the end of the year, the unemployment rate amounted to 6.1%.
Exchange rates. During 2023, the dollar basket weakened at a rate of 2%. Notwithstanding this, the shekel weakened by approx. 3% as against the dollar, with very high fluctuations during the year, and by approx. 1.5% against the currencies basket. The fluctuations resulted from events related to the judicial reform, which had an effect on the weakening of the shekel in the first nine months of the year and which intensified with the outbreak of the War.
However, the trend of the weakening of the shekel moderated considerably with the Bank of Israel's declaration that

it would sell dollars from the foreign currency reserves, and subsequently, to a large extent, due to the impact of the NASDAQ rises, in the last two months of the year.

Inflation. Inflation has been moderated worldwide, though it still remained higher than the targeted rates of the central banks. Similarly to the global trend, inflation in Israel also moderated during 2023, and in particular in the second half of the year, reaching at the end of the year the upper limit of the targeted rate. The annual inflation rate amounted to 3%, compared to 5.3% in 2022. At the end of December 2023, CPI contracts for one year took into account an inflation rate of 2.35%.

Monetary policy. During 2023, and up to the fourth quarter, central banks raised the interest rate. The FED raised the interest rate to a level of 5.25%-5.5%, and the ECB raised it to 4%. However, the Bank of Israel kept the interest rate unchanged during the second half of the year, after raising it during the first half of the year from 3.25% to 4.75%.

Financial markets. The last two months of the year, were marked by steep price rises on the US market following reductions in the preceding three months, and in continuation of the price raises that marked the first half of the year, as a result, the year ended with sharp increases in share prices. Notwithstanding that, the local Stock Exchange recorded in total for the year slight price raises only, this in view of local effects, the principal of which were the promotion of the judicial reform and the "Iron Swords" War. The fourth quarter of the year was marked by sharp fluctuations, when at the beginning, due to the effect of the War, sharp price reductions were recorded, thereafter, in the last two months of the year, a steep upward correction was recorded.

Furthermore, in the government bonds market in the last quarter of 2023 opened with a negative yield gap between Israeli government bonds for ten years and the US bonds. However, as a result of the War, yields on Israeli bonds rose during the quarter, in contrast to a reduction in yields in the US bonds. Thus, the year ended with yields of 4.2% on Israeli bonds, reflecting a positive yields gap of 30 basis points against the US bonds.

First quarter of 2024[6]. Since the beginning of 2024, the strong labor market data coming out of the United States have indicated the strength of the US economy, concurrently, inflation surprised upwards. Such data support high interest rates for a protracted period of time.

In Israel, the Integrated Index for the State-of-the-Economy for January indicates a continued recovery, following the downturn that characterized the first months of the war. The same is true of the broad unemployment rate, which has fallen to 4.8% compared to 6.1% in December.

Israel's cumulative budget deficit for the 12 months ended January 2024 was NIS 89 billion, which is 4.8% of GDP, compared to 4.2% at the end of 2023.

Inflation in January 2024 remained unchanged, while the annual rate slowed from 3% to 2.6%, with core inflation slowing down to 2.4%.

At the beginning of 2024, the Bank of Israel lowered the interest rate by 0.25% to 4.5%, and at the end of February it remained unchanged. The Bank of Israel noted the high degree of uncertainty against the background of the war, together with the need to see inflation established within the target range; it has therefore chosen to pursue a measured and cautious course in the process of lowering the interest rate. In addition, the Bank of Israel called on the government to complete the process of passing the budget in the Knesset.

During the aforesaid period, the Fed's interest rate remained unchanged at 5.25%-5.5%, as did the Eurozone's interest rate, which remained at 4%.

During February 2024, and for the first time since rating agencies began publishing the State of Israel's credit rating, the Moody's agency announced a downgrade of the rating from A1 to A2 and a downgrade of the outlook rating of Israel from stable to negative. Moody's decision was based on a combination of several trends in the Israeli economy, effects of the war in Gaza and fear of a war in the north. In the report published by Moody's, the agency lists a large number of reasons that led to the rating downgrade decision, with the main ones being to the higher geopolitical risk even after the end of the war, deterioration in the fiscal position, and also fear of political turmoil once the war cabinet dissolves.

Yields on 10-year Israeli government bonds rose to 4.33%, while reducing the gap against the US bonds to 12 basis points. The exchange rate of the shekel against the dollar strengthened by 1.4% since the beginning of the year, with strong trading volatility, and by approx. 3.0% against the currencies basket. During this period, the TA-125 index rose by approx. 6%, compared with an increase of approx. 8% in the S&P 500 and NASDAQ indices.

6 All the data in this chapter refer to the period from January 1, 2024 to March 5, 2024.

Forward-looking information. The aforesaid includes, inter alia, assessments of the Bank regarding the future development of primary indicators, which are deemed to be forward-looking information. The aforesaid reflects the assessment of the Bank's Management, taking account of information available to it at the time of preparing the annual report, with regard to trends in the Israeli and world economies. The aforesaid might not materialize should changes occur in the trends, in Israel and/or in the world, and as a result of various developments in the macro-economic conditions that are not under the control of the Bank.
For further details, see "Main developments in Israel and around the world in 2023" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

The most material leading and developing risks

According to the FSB's recommendations, a leading risk is defined as a development occurring in the bank's business environment that could have an adverse effect on its results in the coming year. A developing risk includes a risk, regarding which the timing of its materialization is uncertain, whose occurrence could have a material impact on the bank.
Following are details regarding the most material leading and developing risks.
Macro environment risk. The negative impact of the War on the local economy and the uncertainty regarding the derivatives of the future effects, alongside anticipations for the lowering of the interest rate, increase expectations for a negative impact on income, on the repayment ability of borrowers and on the profitability on the banking system. This, alongside geopolitical aspects, impacting the global and domestic economies and the markets. The implications of the macro-economic environment have an impact mostly on credit, investments, market and liquidity, cyber and models risks.
Business model risks. The challenges of the macro environment, including erosion of financing sources and erosion of margins, alongside changes in the activity environment arising, inter alia, from acceleration in technological developments, and growing competition in the banking and non-banking systems, concurrently with increasing consumer transparency and fairness aspects in the banking system, changes in consumer expectations and private and governmental initiatives to increase the burden on banks.
As a derivative, the dynamics, the competition, the uncertainty and the tempo of changes, lead to an increase in the business model risk (being part of the strategic risk) compelling the Bank and the Group to form work plans under uncertainty conditions, accelerate efficiency measures and examine flexible and advanced solutions for the realization of the growth potential, from a forward looking standpoint, which would ensure the continued positioning of the Group as a leading banking group also in the future.
Accordingly, the Group focuses the strategic program each year, emphasizing the continuation of efforts regarding strategic focal points, alongside a constant examination of changes in the risk environment.
Such changes, with an emphasis on innovative and technological projects, naturally lead to an increase in third party risks (supply chain, quality protection and control, cyber risks, fraud, leakage of information and protection of privacy). The Group acts to continuously improve tools supporting risk management, including the updating of policy documents, establishing standardization, contractual regulation and processes as well as introducing "new product" processes to new operations or products.
Within the framework of the strategic plan, the Bank has set goals and focused projects for the advancement of efficiency measures, including by means of operational efficiency and digitization of processes, for the improvement of procedures and controls, increasing customer satisfaction, focusing on innovation and maximizing the value of the Group.
Cyber risks and data protection. Cyber risk continues to comprise one of the significant and developing threats in the world generally and in the banking system in particular. The level of ingenuity, the complexity of the attack and the variety of methods are increasing and so is the involvement of organized crime factors and of government agencies, this alongside the increase in fraud risks. Due to business competition, and the aspiration to achieve a position in the technological front, the scope of deployment of computer based services exposed to the cyber world has grown (cooperation with third parties, open banking, cloud computer services, use of open code, transition to distance working and more).

With the understanding of the implications of the realization of these threats on the Group's operations, the availability of its services and its reputation, the Bank's Management and Board of Directors allocate abundant resources for the facing of such threats, including their direct involvement. The policy, the methodologies and the tools supporting management of the risk, are being updated and developed on a current basis, while stressing the continuing improvement of monitoring and protection tools used against internal and external threats and the preparations made for providing immediate response to events. A process is conducted of continuous maintenance and persistent improvement of controls by different methods and the challenging thereof. This, concurrently with a current dialogue with the Regulator and with the Israel National Cyber Directorate.

Fraud risks. Growth is being noticed in recent years in the scope of fraud attempts in the system and in the total amount of fraud damage, as well as an increase in the complexity and ingenuity of fraud. The Bank and the Group take measures to strengthen verification procedures and reduce exposure, while combining advanced protection abilities with increased controls and monitoring.

Model risks. The ever-increasing emphasis on digital banking, along with customers' heightened expectations for value maximalization, for insights and for customized, available and immediate products leads to the fact that organizations in general and in the banking system in particular are becoming more and more data-based and model-based, including the assimilation of sophisticated, AI-based models and machine learning. These aspects create developing challenges in the field of model development, as well as in the fields of validation and model risk management. The Group is working according to a multiyear work program, to develop advanced models, as well as to constantly improve the tools and methodologies that support the model risk management.

Environmental and climate risks. In recent years, public awareness and regulatory attention increased regarding the issue of environmental and climate risks and their impact on the banking and financial system. The regulation of the issue began in 2009 and was recently expanded in light of the regulatory and global focus on the field (with emphasis on credit and investments fields).

Environmental risk is an "evolving risk". From this perspective, and within the framework of its preparations for managing the risk and integrating it as part of the risk management processes, Discount Bank has been reorganizing its activities relating to this topic, while examining and assimilating accepted practices from around the world.

For additional details, see below in Chapter C of the Board of Directors and Management report – "Risk review" and in the document "Disclosure according to the third pillar of Basel and additional information on risks", on the MAGNA site of the Israel Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Opinion of the Independent Auditors

In the opinion provided by the independent auditors on the financial statements for the year 2023, the independent auditors drew attention to Note 26 C, section 10, regarding claims that cannot be estimated.

Material developments in income, expenses and other comprehensive income

Profit and Profitability

The Discount Group's Net profit in 2023 amounted to NIS 4,192 million, compared with NIS 3,495 million in 2022, an increase of 19.9%.

Net return on shareholders' equity for 2023 was 15.7%, compared with 15.1% in 2022.

Net earnings per one share of NIS 0.1 par value amounted in 2023 to NIS 3.39, compared with NIS 2.87 in 2022.

The main factors that had an effect on the business results of the Group in 2023, compared with 2022:

a. An increase in net interest income in an amount of NIS 2,243 million (25.8%), which was affected by the growth in credit to the public in the non-linked segment, from an increase in the Bank of Israel interest rate and from the increase in interest bearing deposits;

b. An increase in credit losses expenses in the amount of NIS 1,095 million. The expenses in 2023 stemmed mainly from expenses on a collective basis mostly due to worsening in the macro-economic components. The expenses have also been affected by accounting write-offs, changes in the components of the qualitative adjustments, and changes in the balances.

c. An increase in the total non-interest income, of NIS 887 million (20.9%), which was affected, mostly, by an increase of NIS 801 million in non-interest financing income, mainly an increase in adjustments to fair value of derivative instruments, which was offset by an increase in losses from available-for-sale bonds, and an increase of NIS 91 million in fees and commissions (2.7%), mainly from an increase in credit card fees and commissions.

d. An increase of NIS 749 million in operating and other expenses (10.4%), affected, mainly, from an increase of NIS 282 million in salaries (7.9%), from a NIS 165 million rise in maintenance and depreciation of buildings and equipment (13.4%) and from an increase of NIS 302 million in other expenses (12.5%).

e. An increase in tax provision on income in the amount of NIS 510 million in 2023 (28.2%).

Additional details and explanations are presented below.

Net Profit Attributed to the Bank's Shareholders in the fourth quarter of 2023 amounted to NIS 919 million, compared with NIS 817 million in the third quarter of the year, an increase in a rate of 12.5%, and compared with NIS 939 million in the fourth quarter of 2022, an increase of 2.1%.

Net return on equity attributable to the Bank's shareholders reached in the fourth quarter of 2023 an annualized rate of 13.2%, compared to 12.0% in the third quarter of the year and compared to 15.4% in the fourth quarter of 2022.

The major factors affecting the business results of the Group in the fourth quarter of 2023, compared with the previous quarter, were:

a. A decrease in net interest income in the amount of NIS 152 million (5.6%).

b. A decrease in credit loss expenses in the amount of NIS 206 million (34.6%).

c. A decrease in operating and other expenses in the amount of NIS 21 million (1.0%), affected, mainly, from a decrease in maintenance and depreciation of buildings and equipment.

d. An increase in tax provision on income in the amount of NIS 13 million (2.8%).

Developments in Income and Expenses

Developments in certain profit and loss statement items in 2021-2023

	For the year ended December 31,			Change in %	
	2023	2022	2021	2023 compared to 2022	2022 compared to 2021
	In NIS millions				
Interest income	20,712	11,700	7,491	77.0	56.2
Interest expenses	9,776	3,007	962	225.1	212.6
Net interest income	**10,936**	**8,693**	**6,529**	**25.8**	**33.1**
Credit loss expenses (expenses release)	1,502	407	(693)	269.0	
Net interest income after credit loss expenses	**9,434**	**8,286**	**7,222**	**13.9**	**14.7**
Non-interest Income					
Non-interest financing income	1,218	417	765	192.1	(45.5)
Fees and commissions	3,495	3,404	3,125	2.7	8.9
Other income	425	430	72	(1.2)	497.2
Total non-interest income	**5,138**	**4,251**	**3,962**	**20.9**	**7.3**
Operating and other Expenses					
Salaries and related expenses	3,850	3,568	3,468	7.9	2.9
Maintenance and depreciation of buildings and equipment	1,397	1,232	1,187	13.4	3.8
Other expenses	2,719	2,417	2,203	12.5	9.7
Total operating and other expenses	**7,966**	**7,217**	**6,858**	**10.4**	**5.2**
Profit before taxes	6,606	5,320	4,326	24.2	23.0
Provision for taxes on profit	2,316	1,806	1,516	28.2	19.1
Profit after taxes	**4,290**	**3,514**	**2,810**	**22.1**	**25.1**
Bank's share in profits (losses) of Associates, net of tax effect	(11)	27	20	-	35.0
Net profit attributed to the non-controlling interests in consolidated companies	(87)	(46)	(57)	89.1	(19.3)
Net Profit attributed to Bank's shareholders	**4,192**	**3,495**	**2,773**	**19.9**	**26.0**
Return on shareholders' equity, in %	15.7	15.1	13.6		
Efficiency ratio in %	49.6	55.8	65.4		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**4,026**	**3,190**	**3,016**	**26.2**	**5.8**
Return on shareholders' equity, in % - excluding certain components (see below)	15.1	13.8	14.8		
Efficiency ratio in % (see below)	50.5	57.4	61.6		

Profitability - excluding certain components

	For the year ended December 31				
	2023	2022	2021		
	in NIS millions			Change in %	
Net Profit Attributed to the Bank's Shareholders - as reported	4,192	3,495	2,773	19.9	26.0
Excluding[1]:					
Profit from the sale of rights in Visa Europe	-	(20)	-		
Realization of assets	(239)	(315)	(38)		
Nonrecurring awards	-	-	155		
Redemption of jubilee awards	-	-	19		
Effect of settlement	-	30	94		
Provisions stemming from the separation of ICC	73	-	-		
Expenses of vacating the Management Building of IDB Bank	-	-	13		
Net Profit Attributed to the Bank's Shareholders - excluding the above components	**4,026**	**3,190**	**3,016**	**26.2**	**5.8**

Footnote:

(1) See below "Details regarding eliminated components".

Developments in certain profit and loss statement items in the fourth quarter of 2023, compared with the third quarter of 2023 and the fourth quarter of 2022

	2023		2022	Change Q4 2023 compared to	
	Q4	Q3	Q4	Q3 2023	Q4 2022
	In NIS millions			in %	
Interest income	5,263	5,422	3,930	(2.9)	33.9
Interest expenses	2,708	2,715	1,390	(0.3)	94.8
Net interest income	**2,555**	**2,707**	**2,540**	**(5.6)**	**0.6**
Credit loss expenses	390	596	230	(34.6)	69.6
Net interest income after credit loss expenses	**2,165**	**2,111**	**2,310**	**2.6**	**(6.3)**
Non-interest Income					
Non-interest financing income	295	312	248	(5.4)	19.0
Fees and commissions	821	918	857	(10.6)	(4.2)
Other income	118	6	9	-	-
Total non-interest income	**1,234**	**1,236**	**1,114**	**(0.2)**	**10.8**
Operating and other Expenses					
Salaries and related expenses	979	972	988	0.7	(0.9)
Maintenance and depreciation of buildings and equipment	363	384	313	(5.5)	16.0
Other expenses	680	687	666	(1.0)	2.1
Total operating and other expenses	**2,022**	**2,043**	**1,967**	**(1.0)**	**2.8**
Profit before taxes	1,377	1,304	1,457	5.6	(5.5)
Provision for taxes on profit	470	457	516	2.8	(8.9)
Profit after taxes	**907**	**847**	**941**	**7.1**	**(3.6)**
Bank's share in profits (losses) of Associates, net of tax effect	10	(17)	(3)	-	-
Net profit attributed to the non-controlling interests in consolidated companies	2	(13)	1	-	100.0
Net Profit attributed to Bank's shareholders	**919**	**817**	**939**	**12.5**	**(2.1)**
Return on shareholders' equity, in %[1]	13.2	12.0	15.4		
Efficiency ratio in %	53.4	51.8	53.8		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**821**	**817**	**958**	**0.5**	**(14.3)**
Return on shareholders' equity, in %[1] - excluding certain components (see below)	11.8	12.0	15.7		
Efficiency ratio in % (see below)	55.2	51.8	53.0		

Footnote:
(1) On an annual basis.

Profitability - excluding certain components

	2023		2022	Q4 2023 compared to	
	Q4	Q3	Q4	Q3 2023	Q4 2022
	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported	919	817	939	12.5	(2.1)
Excluding[1]:					
Realization of assets	(97)	-	-		
Effect of settlement	-	-	19		
Provisions stemming from the separation of ICC	[2](1)	-	-		
Net income attributed to the Bank's shareholders - excluding the above components	**821**	**817**	**958**	**0.5**	**(14.3)**

Footnotes:
(1) See below "Details regarding eliminated components".
(2) A change in the assessment of the value of the phantom option.

Details regarding Excluded Components

Gain on sale of the VISA Inc. shares. Gain for a part of the shares received by ICC and the Bank in 2016, with respect to the merger transaction between VISA Europe and VISA Inc. (see Note 12 K to the financial statements).
Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus. For details, see Note 16 to the financial statements, section K.
Nonrecurring awards. For details, see Note 23 A (12) to the financial statements.
Redemption of jubilee awards. For details, see the 2022 Annual Report (p. 348).
Effect of settlement. Acceleration of the amortization of "actuarial profits and losses" (a charge to profit and loss) following the expected payment of severance pay to retirees within the framework of the retirement plans and by natural retirement (see Note 23 H to the financial statements).
Expenses of vacating the Management Building of IDB Bank. Principally the balance of lease improvements in the old Management building, which was written off in the fourth quarter of 2020, and in the second quarter of 2021 it was decided to write it off, due to the vacating of parts of the old building during those quarters, respectively, as well as expenses relating to the vacating of the building and its return to the owners.
Allowances deriving from the separation of ICC. For details, see Note 36 (b)(1) to the financial statements.

For details regarding gains for the ZIM shares in a total amount of NIS 124 million (before tax), see Note 12 to the financial statements, section L.

Details regarding material changes in statement of profit and loss items

Net interest income. In 2023, net interest income, amounted to NIS 10,936 million compared with NIS 8,693 million in 2022, an increase of 25.8%. The rise in the net interest income, in the amount of NIS 2,243 million, is explained by a positive price impact of approx. NIS 2,344 million, and from a negative quantitative effect in the amount of approx. NIS 101 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).
The interest margin, excluding derivatives, reached a rate of 2.12% in 2023, compared with 2.18% in 2022.
The average balance of interest bearing assets has increased by a rate of approx. 9.6%, from an amount of NIS 323,381 million to NIS 354,510 million, and the average balance of interest bearing liabilities has increased by a rate of approx. 26.1%, from an amount of NIS 208,531 million to NIS 262,957 million.

Net interest income according to linkage segments

Distribution of volume of operations according to interest bearing assets, net interest income and interest spread by linkage segments

	2023				2022			
	Volume of activity[1] in %	Weight out of total net interest income (expenses), in %	Net interest income (expenses) in NIS millions	Interest spread in %	Volume of activity[1] in %	Weight out of total net interest income, in %	Net interest income in NIS millions	Interest spread in %
Unlinked shekels	71.6	93.7	10,247	2.88	72.9	75.6	6,574	[2]2.41
CPI-linked shekels	8.7	10.6	1,159	1.68	7.7	12.8	1,112	1.65
Foreign Currency	19.7	(4.3)	(470)	0.88	19.4	11.6	1,007	1.58
Net interest income and the interest spread	**100.0**	**100.0**	**10,936**	**2.12**	**100.0**	**100.0**	**8,693**	**2.18**

Footnotes:
(1) According to the average balance of the interest bearing assets.
(2) Recalculated following the reclassification of the average balance – see Note 19 A to the financial statements.

The growth in net interest income, stemmed mostly from an increase in credit to the public in the non-linked segment and from a rise in the Bank of Israel interest, offset by a decline in the interest margin in the foreign currency segment, as well as a growth in the surplus of liabilities in the foreign currency segment. The decrease in the interest margin in the foreign currency sector stems mostly from the increase in the Dollar interest, mainly from activity in Israel. This decrease was offset by an increase in derivatives income (recorded in non-interest financing income).

In the non-linked shekel segment, net interest income increased in 2023 at a rate of 55.9%. Income from this segment constituted 93.7% of total net interest income in 2023, compared with 75.6% in 2022.

The average balance of assets in this segment increased in 2023 by 7.7% compared with 2022.

The increase in the segment's profit is due to a rise in the scope of net interest-bearing assets, primarily credit to the public, and an increase in the interest spread, which was offset by a decrease in the excess of assets. The increase in the interest spread was affected, inter alia, from a rise in the Shekel interest rate.

The CPI-linked Shekel segment, net interest income increased in 2023 at a rate of 4.2% and its proportion of total net interest income in 2023 was 10.6%, compared with 12.8% in 2022. The average asset balance in this segment in 2023 increased by a rate of 23.1% compared with 2022.

The increase in profits stemmed mostly from the increase in the volume of net interest bearing assets, mostly credit to the public.

In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest expenses amounted to NIS 470 million.

The average balance of assets in this segment increased in 2023 at a rate of 11.4% compared to 2022, while the average balance of liabilities increased by 49.1%.

The transition to a loss in the segment is due to a decrease in the interest spread. The decrease in the interest margin was affected, inter alia, by the change in the mix of assets and liabilities and from the increase in the Dollar interest.

Non-interest financing income increased in 2023 at a rate of 192.1%, compared with 2022. The increase in non-interest financing income stems, mostly, from an increase in the adjustments to fair value, which was offset by a decrease in profits on realization and adjustments to fair value of bonds (see below "Analysis of the total net financing income").

Non-interest financing income includes the effect of activity in derivative financial instruments, which constitute an integral part of the management of the Bank's interest exposure and base exposure. Accordingly, for the purpose of analyzing the financing profit from current activity, the net interest income and the non-interest financing income need to be aggregated.

Composition of net financing income

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2023		
Interest income	20,712	5,263	5,422	5,334	4,693
Interest expenses	9,776	2,708	2,715	2,400	1,953
Net interest income (1)(2)(3)	10,936	2,555	2,707	2,934	2,740
Non-interest financing income	1,218	295	312	282	329
Total net financing income	**12,154**	**2,850**	**3,019**	**3,216**	**3,069**
Footnotes:					
(1) Of which, margin from credit activity to the public	6,046	1,505	1,567	(4)1,565	(4)1,409
(2) Of which, margin from deposits activity from the public	5,038	1,276	1,225	1,294	1,243
(3) Average prime interest rate	5.99%	6.25%	6.25%	6.08%	5.39%
Interest income	11,700	3,930	3,113	2,573	2,084
Interest expenses	3,007	1,390	833	500	284
Net interest income(1)(2)(3)	8,693	2,540	2,280	2,073	1,800
Non-interest financing income	417	248	151	(27)	45
Total net financing profit	**9,110**	**2,788**	**2,431**	**2,046**	**1,845**
Footnotes:					
(1) Of which, margin from credit activity to the public	5,554	(4)1,469	(4)1,421	(4)1,368	(4)1,296
(2) Of which, margin from deposits activity from the public	2,323	1,086	704	358	175
(3) Average prime interest rate	2.76%	4.44%	3.05%	1.97%	1.60%

(4) Reclassified - the theoretical interest on the equity attributed to each segment is presented as of the report for the third quarter 2023 in other margin instead of the margin from activities of providing credit to the public. The comparative data have been reclassified accordingly.

The margin on granting credit to the public operations and the margin on acceptance of deposits from the public comprise the gap between the interest stated on credit/deposits and the internal pricing by the Bank for the particular product. The internal pricing by the Bank is based on market interest data for the relevant periods. It is emphasized that in determining the internal pricing, as stated, the Bank exercises judgment and applies an internal model; therefore, in determining the pricing, as stated, a subjective measure is involved. Accordingly, care should be taken when comparing the margins of different banking corporations.

The rate of the margin on granting credit to the public operations to the average balance of credit to the public, decreased from 2.4% in the first quarter of 2022, to a rate of 2.3% in the fourth quarter of 2023.

The rate of the margin on accepting deposits from the public operations to the average balance of deposits from the public, increased from 0.3% in the first quarter of 2022, to a rate of 1.7% in the fourth quarter of 2023.

The average prime rate of interest for the fourth quarter of 2023, increased by 4.7 percentage points as against the average prime rate of interest for the first quarter of 2022.

Most of the growth in margin on accepting deposits from the public operations stemmed from the household segment (growth from a rate of 0.3% in the first quarter of 2022, to a rate of 2.7% in the fourth quarter of 2023), and from the small businesses segment (growth from a rate of 0.3% in the first quarter of 2022, to a rate of 2.1% in the fourth quarter of 2023). See Note 29 to the financial statements.

The margin on accepting deposits from the public operations is affected by the current account deposits that bear no interest. Upon eliminating the current account deposits, the rate of the margin on accepting deposits from the public operations would have reached approx. 1.2% in the fourth quarter of 2023 (as against 1.7%).

The Bank estimates that the margin on accepting deposits from the public operations would shrink to the extent that the transfer of funds from current account deposits to interest bearing deposits continues.

Forward looking information. The above stated reflects the assumptions of the Bank's Management regarding the conduct of customers, noticing, inter alia, the trend observed already. The power of the transfer of funds, as stated, and its persistence, depends on behavioral components and on the magnitude of the incentive for the said transfer of funds, as well as on changes in the interest environment in the economy.

Analysis of the total net financing income

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2023		
Financing Income from current operations	11,122	2,728	2,771	2,908	2,715
Effect of CPI on net interest income	556	18	141	227	170
Effect of CPI on derivative instruments	9	35	(6)	(12)	(8)
Net Profits (losses) from realization and adjustment to fair value of bonds(1)	(259)	(99)	(55)	(95)	(10)
Profits (losses) from investments in shares(2)	151	29	73	30	19
Adjustment to fair value of derivative instruments	318	89	43	116	70
Exchange rate differences, options and other derivatives(1)	257	50	52	42	113
Total net financing income	**12,154**	**2,850**	**3,019**	**3,216**	**3,069**
Footnotes:					
(1) Exchange rate differences of trading bonds are included in the exchange rate differences line	4	(1)	-	2	3
(2) Of which: income from realizations in Discount Capital in deduction of provision for impairment	59	(1)	14	14	32
			2022		
Financing Income from current operations	8,473	2,513	2,265	1,965	1,730
Effect of CPI on net interest income	626	111	151	230	134
Effect of CPI on derivative instruments	(156)	(15)	(39)	(65)	(37)
Net profit from realization and adjustment to fair value of bonds(1)	(31)	(96)	(11)	16	60
Profit from investments in shares(2)	84	2	41	(15)	56
Adjustment to fair value of derivative instruments	(170)	210	(50)	(186)	(144)
Exchange rate differences, options and other derivatives(1)	279	62	71	100	46
Net income on the sale of loans	5	1	3	1	-
Total net financing profit	**9,110**	**2,788**	**2,431**	**2,046**	**1,845**
Footnotes:					
(1) Exchange rate differences of trading bonds are included in the exchange rate differences line	23	3	(3)	19	4
(2) Of which: income from realizations in Discount Capital.	57	(2)	5	15	39

For details regarding CPI linked credit to the public, see below "Composition of credit to the public by linkage segments", for details regarding balances of CPI linked credit for mortgages, see below "Development of housing credit balances according to linkage segments".

Net financing income increased in 2023 at a rate of 33.4%. The increase in financing income stemmed mostly from an increase in financing income from current operations, and by a positive effect of adjustments to fair value of derivative instruments.

Rates of income and expenses. In Appendix 1 are presented net interest income, with respect to the balance sheet activity. In order to explain the Bank's overall interest spread, the effects of activity in derivatives not for trading (excluding adjustments to fair value and exchange rate differences) needs to also be added.

Interest spread, including derivatives not for trading reached 2.05% in 2023, compared to 2.03% in 2022.

Net financing income, amounted in the fourth quarter of 2023 to NIS 2,850 million, compared to NIS 2,788 million in the corresponding quarter last year, an increase at the rate of 2.2%, and compared to NIS 3,019 million in the third quarter of 2023, a decrease at the rate of 5.6%. The increase in net financing income in relation to the corresponding quarter last year, stemmed mostly from the rise in the Bank of Israel interest between the two periods, which was offset by a decrease in adjustments to fair value. The reduction in net financing income in relation to the preceding quarter stemmed from the CPI rising at a lower rate during the reported quarter in relation to the preceding quarter, as well as from the decrease in profits from securities.

The interest spread relating to balance-sheet activity reached a rate of 1.89% in the fourth quarter of 2023, as against 2.25% in the corresponding quarter last year and against 2.05% in the third quarter of the year.

Interest spread, including derivatives not for trading reached in the fourth quarter of 2023 a rate of 2.01%, compared to 2.12% in the corresponding quarter last year and compared to 2.19% in the third quarter of the year.

Development of net interest income, by regulatory operating segments

	For the year ended December 31,		
	2023	2022	Change
	In NIS millions		in %
Domestic operations:			
Households	4,996	3,081	62.2
Private banking	386	201	92.0
Small and minute businesses	2,783	1,955	42.4
Medium businesses	750	503	49.1
Large businesses	1,545	1,125	37.3
Institutional bodies	90	65	38.5
Financial management	(886)	616	(243.8)
Total Domestic operations	**9,664**	**7,546**	**28.1**
Total International operations	**1,272**	**1,147**	**10.9**
Total	**10,936**	**8,693**	**25.8**

For details regarding income from trading activities, see "Financial Management Segment (Domestic operations)" below.

Losses on sale of securities. In January 2024, the Bank sold bonds out of the available-for-sale portfolio. A pre-tax loss of approx. NIS 24 million was recorded as a result of this sale. In December 2023, IDB Bank sold US Government agency bonds, of the GNMA AFS class. These securities were sold out of the available-for-sale portfolio, and their total value stated in the books of the subsidiary amounted to approx. US$240 million. A pre-tax loss of approx. US$30 million has been recorded as a result of this sale (approx. NIS 109 million).

It is noted that the said sales had no impact on the capital adequacy or on the capital (except for the effect of complementing the tax on profits of IDB Bank, at an immaterial scope).

Credit loss expenses. In 2023 credit loss expenses were recorded in an amount of 1,502 million were recorded, compared with expenses of NIS 407 million in 2022.

The credit loss expenses increase in 2023 has been mostly affected by the following factors:

- Expenses on a collective basis (excluding housing loans) in the amount of NIS 1,172 million, compared expenses of NIS 344 million in 2022. The expenses in 2023 were affected mostly due to growth in the macro-economic

components. The expenses have also been affected by accounting write-offs, changes in the components of the qualitative adjustments, and increase in balances;
- Expenses on a specific basis in the amount of NIS 255 million. In 2022, no expenses on a specific basis were recorded. The expenses in 2023 were affected mainly from the recording of accounting write-offs and by the worsening of the classification of a number of borrowers;
- Expenses for housing loans in the amount of NIS 75 million, compared to expenses in the amount of NIS 63 million, in 2022.

For additional details, see below "Credit to the public" and "Credit risks" in Chapter C hereunder. For details as to the components of the credit loss expenses, see Note 31 to the financial statements.

Working assumptions used in determining the collective allowance. Within the framework of calculating the collective allowance for credit losses, as well as within the framework of processes carried out by the Bank for the purpose of capital allocation and stress testing, a systematic methodology is used that connects macro indices to the financial losses of the Bank. This is based on a formula that relies on a long-term statistical correlation between the Bank's allowances and the macro indices. This methodology has also been used to carry out the sensitivity analyses on a collective allowance (see below). As part of these tests, the Bank has analyzed the impact on the loss of macroeconomic factors, the principal of which are unemployment and GDP. The assumptions used in calculating the collective allowance are unemployment at an average rate of 5.6% and GDP growth at a rate of 1.6% in the coming year (namely, the average rate from the first quarter of 2024 to the fourth quarter of 2024. The rate of growth for the first quarter of 2024 is the one with the most impact). This is, compared to the assessments made by macro-economic factors prior to the outbreak of the War: unemployment at the rate of 4.2% and growth of the GDP at a rate of 2.0%.

Sensitivity analyses. The sensitivity analyses are intended to give quantitative expression to the effect of changes in the working assumptions presented above on the estimate of the collective allowance. The sensitivity analysis is presented in relation to the effect of permanent hypothetical changes in the aforementioned principal work assumptions.

The Bank assesses that a 1.0% rise in the unemployment rate and a 1.0% fall in GDP would lead to an increase of approx. NIS 20-30 million in the collective allowance (namely, unemployment at a rate of 6.3% and GDP growth at a rate of 0.7% in the coming year).

The Bank assesses that a 1.0% fall in the unemployment rate and a further 1.0% rise in GDP would lead to a decrease of approx. NIS 70-80 million in the collective allowance. (namely, unemployment at a rate of 4.9% and GDP growth at a rate of 2.4% in the coming year).

It should be emphasized that, in practice, the allowance is affected by many different variables, both sectorial and macroeconomic, as well as by subjective assessments. Furthermore, sensitivity analyses are designed to examine changes in common and normal situations, and their validity is reduced in situations of acute uncertainty, such as in wartime. In light of the above, the predictive ability of calculating the sensitivity of the allowance that will be required in practice, given the economic parameters at the rates mentioned above is limited. It should also be emphasized that these effects are not linear and therefore it is not possible to extrapolate from the assessments presented above the effect that a different change in the aforementioned principal economic parameters would have.

In this context, it should be noted that the basic assumption regarding the security situation is a high-intensity war situation on the southern front, until the end of the first quarter of 2024, and security events on the northern front at a high intensity, which does not amount to a war. A significant extension of the duration of the war and/or the development of a multi-front conflict might necessitate a re-examination of the working assumptions.

It should also be emphasized that in the absence of a defined and uniform model for assessing the collective allowance that would be required in the circumstances described above, and in light of the fact that, in such circumstances, the process of determining the allowance would involve subjective estimates and assessments, it is necessary to exercise twice as much caution in examining the sensitivity analyses presented above and in making a comparison between the banks with regard to this.

Details of the quarterly development in the credit loss expenses

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis								
Change in allowance	44	44	94	[3](36)	(30)	30	(36)	(71)
Gross Accounting Write-offs	56	54	31	81	111	53	50	58
Collection	(23)	(36)	(15)	(39)	(24)	(70)	(49)	(22)
Total on a specific basis	**77**	**62**	**110**	**6**	**57**	**13**	**(35)**	**(35)**
On a collective basis								
Change in allowance	193	440	130	[3]153	128	55	126	(46)
Gross Accounting Write-offs	200	189	168	154	132	124	138	112
Collection	(80)	(95)	(96)	(109)	(87)	(86)	(98)	(91)
Total on a collective basis	**313**	**534**	**202**	**198**	**173**	**93**	**166**	**(25)**
Total	**390**	**596**	**312**	**204**	**230**	**106**	**131**	**(60)**
Rate of credit loss expenses (expenses release) to the average balance of credit to the public[1]:								
The rate in the quarter[2]	0.59%	0.92%	0.49%	0.33%	0.38%	0.18%	0.23%	(0.11%)
Cumulative rate since the beginning of the year[2]	0.59%	0.58%	0.41%	0.33%	0.18%	0.10%	0.06%	(0.11%)

Footnotes:

(1) On an annual basis.

(2) Including an expense in an immaterial amount for credit to banks and governments.

(3) Reclassified following improvement of data.

Details of the annual development in the credit loss expenses

	2023	2022
	In NIS millions	
On a specific basis		
Change in allowance	146	(107)
Gross accounting write-offs	222	272
Collection	(113)	(165)
Total on a specific basis	**255**	**-**
On a collective basis		
Change in allowance	916	263
Gross accounting write-offs	711	506
Collection	(380)	(362)
Total on a collective basis	**1,247**	**407**
Total	**1,502**	**407**
Rate of credit loss expenses (expenses release) to the average balance of credit to the public	[1]0.59%	[1]0.18%

Footnote:

(1) Including an expense in an immaterial amount for credit to banks and governments.

For additional details, see below "Credit to the public" and "Credit risk" in chapter C hereunder.

Fees and commissions amounted to NIS 3,495 million in 2023, compared with NIS 3,404 million in 2022, an increase of 2.7%. The growth was mainly affected by credit card fees and commissions, ledger fees, exchange differences and handling credit, partly offset by a decrease in fees and commissions earned on operations in securities and in certain derivative instruments, from fees and commissions on financing activities and fees and commissions from the distribution of financial products.

Distribution of fees and commissions

	For the year ended December 31,		
	2023	2022	Change
	in NIS millions		in %
Account Management fees	490	472	3.8
Credit cards	1,827	1,709	6.9
Operations in securities and in certain derivative instruments	328	361	(9.1)
Fees and commissions from the distribution of financial products	149	158	(5.7)
Handling credit	234	226	3.5
Conversion differences	178	161	10.6
Foreign trade services	55	60	(8.3)
Fees and commissions on financing activities	152	177	(14.1)
Other fees and commissions	82	80	2.5
Total fees and commissions	**3,495**	**3,404**	**2.7**

Salaries and related expenses amounted to NIS 3,850 million in 2023, compared with NIS 3,568 million in 2022, an increase of 7.9%. (For details as to the components of this item, see Note 6 to the financial statements). The increase was mostly impacted by the rise in salaries and in the manpower position at the Bank and at IDB Bank. Eliminating the effect of certain components as detailed below, an increase of 9.5% would have been recorded.

Details of the effects of certain components on salaries and related expenses

	For the year ended December 31			Change in %	
	2023	2022	2021	2023 compared to 2022	2022 compared to 2021
	In NIS millions				
Salaries and Related Expenses - as reported	3,850	3,568	3,468	7.9	2.9
Awards	(484)	(495)	(542)		
Salaries and Related Expenses - excluding certain components	**3,366**	**3,073**	**2,926**	**9.5**	**5.0**

Quarterly developments in salaries and related expenses, detailing the effect of certain components

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
Salaries and Related Expenses - as reported	979	972	954	945	988	881	844	855
Awards	(114)	(115)	(138)	(117)	(210)	(106)	(95)	(84)
Salaries and Related Expenses - excluding certain components	**865**	**857**	**816**	**828**	**778**	**775**	**749**	**771**

Maintenance and depreciation of buildings and equipment amounted to NIS 1,397 million in 2023, compared to NIS 1,232 million in 2022, an increase of 13.4%. The rise was mainly affected by the move to the Discount Campus.

Other expenses amounted to NIS 2,719 million in 2023, compared to NIS 2,417 million in 2022, an increase of 12.5%. The increase was affected, mainly, by an increase in expenses from fees and commissions (NIS 129 million), as a result of an increase in credit card activity, computer expenses (NIS 87 million), expenses for pension (NIS 49 million), professional services expenses (NIS 49 million) and insurance expenses (NIS 21 million).

For additional details, see Note 7 to the financial statements.

Investments and Expenses for the Information Technology System

Expenditure for the information technology system includes salaries and related expenses, outsourcing, acquisitions or right of use licenses, depreciation of equipment and buildings and other expenses – communication expenses, buildings and equipment maintenance expenses etc. The total expenditure is presented divided between software, hardware and other – including administration, maintenance and computer services, data protection expenses etc.
The balance of the information technology system assets is presented divided between software, hardware and other – mostly buildings used by the information technology system.
The allocation of salaries and related costs is based upon attribution to subunits. Allocation of building depreciation and maintenance costs is based on area proportions. For details regarding the accounting policy applied with respect to the capitalization of software costs, see Note 1D 12 to the financial statements.
It should be noted that the allocation of acquisition and right of use license costs is based on an estimate, as software components, required for the operations of hardware systems, are integrated within them. It should also be noted that the allocation of indirect and other expenses related to the main components (software, hardware and other) was also based upon an estimate.

Investments and expenses for the information technology system

	December 31, 2023				December 31, 2022			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	in NIS millions							
Expenses for the information technology system, as included in the statement of profit and loss:								
Payroll and related expenses	251	81	58	390	(1)239	(1)84	(1)55	378
Acquisitions or license fees not capitalized to assets	258	2	-	260	208	3	-	211
Outsourcing expenses	117	23	6	146	(1)118	(1)15	(1)7	140
Depreciation expenses	404	113	4	521	376	85	8	469
Other expenses	124	40	57	221	102	33	58	193
Total	**1,154**	**259**	**125**	**1,538**	**1,043**	**220**	**128**	**1,391**
Additions to assets for information technology system not charged as an expense:								
Salaries and related expenses cost	159	-	-	159	130	-	-	130
Outsourcing costs	311	-	-	311	250	-	-	250
Acquisition or license fee costs	258	174	1	433	86	116	-	202
Equipment, buildings and real estate costs	-	-	28	28	-	-	-	-
Total	**728**	**174**	**29**	**931**	**466**	**116**	**-**	**582**
Balances of assets for the information technology system:								
Total amortized cost	**1,507**	**348**	**115**	**1,970**	**1,256**	**287**	**67**	**1,610**
Of which: for salaries and related expenses	1,129	2	4	1,135	996	2	5	1,003

Footnote:
(1) Improvement of data.

In 2023, the relocation of the headquarters units of the Bank and of the MDB to Discount Campus was completed. The relocation also included the migration of the computer systems and supporting units. The aforementioned relocation caused an increase in investments and expenses for the information technology layout.
For additional details, see Note 16 to the financial statements.

Developments in the Other Comprehensive Income (loss)

Changes in other comprehensive income (loss) after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests					Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive loss attributed to the Bank's shareholders
	Net adjustments, for presentation of available-for- sale bonds at fair value	Adjustments from translation of financial statements[1]	Net profit (loss) for cash flows hedge	Adjustments for employee benefits	Total		
	in NIS millions						
Balance at December 31, 2020	486	(598)	1	(799)	(910)	(13)	(897)
Net change during the year	(243)	(113)	(2)	(16)	(374)	3	(377)
Balance at December 31, 2021	**243**	**(711)**	**(1)**	**(815)**	**(1,284)**	**(10)**	**(1,274)**
Net change during the year	[2](1,562)	484	(19)	363	(734)	4	(738)
Balance at December 31, 2022	**(1,319)**	**(227)**	**(20)**	**(452)**	**(2,018)**	**(6)**	**(2,012)**
Net change during the year	219	148	11	79	457	(3)	460
Balance at December 31, 2023	**(1,100)**	**(79)**	**(9)**	**(373)**	**(1,561)**	**(9)**	**(1,552)**

Footnotes:

(1) Including adjustments from translation of financial statements of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

(2) As described in Note 12 M.

The comprehensive income amounted in 2023 to NIS 4,652 million, as compared with NIS 2,757 million in 2022. The gap between this year's total profit and net profit was mainly affected by positive adjustments for bonds available for sale, in the amount of NIS 219 million net (mainly losses that were reclassified to profit and loss following the sale of bonds), by positive adjustments for the translation of financial statements in the amount of NIS 148 million and by positive adjustments for employee benefits in the amount of NIS 79 million net.

Structure and Developments of Assets, Liabilities, Capital and Capital Adequacy

Developments of Assets and Liabilities

Total assets as at December 31, 2023 amounted to NIS 395,724 million, compared with NIS 376,754 million at the end of 2022, an increase of 5.0%.

Developments in the principal balance sheet items

	December 31, 2023	December 31, 2022	Rate of change
	in NIS millions		in %
Assets			
Cash and deposits with banks	51,115	65,713	(22.2)
Securities	59,268	44,794	32.3
Net credit to the public	258,727	241,079	7.3
Liabilities			
Deposits from the public	297,597	292,293	1.8
Deposits from banks	11,328	15,376	(26.3)
Subordinated debt notes	15,491	12,308	25.9
Shareholders' equity	28,474	24,880	14.4
Total equity	29,238	25,478	14.8

Following are details regarding credit to the public, securities and deposits from the public.

Explanation of changes in certain balance sheet items

Cash and deposits with banks. Cash and deposits with banks decreased in 2023 by approx. 22.2%, comprising a decrease of approx. NIS 14.6 billion. The decline stemmed mostly from the growth in the credit portfolio and from the purchase of short-term bonds.

Deposits from the public increased by approx. NIS 5.3 billion in 2023, as part of the Bank's financing strategy for continued growth and expansion of the credit to the public portfolio.

Securities increased in 2023 by approx. NIS 14.5 billion, mostly as a result of the purchase of Israeli Government bonds.

Bonds and subordinated debt notes. The balance increased by approx. NIS 3.2 billion, mostly as a result of an international issuance of U.S. dollar terms bonds in the amount of approx. US$800 million and local issues of bonds in the amount of approx. NIS 1.6 billion, and of subordinated debt noted having a loss absorption mechanism, in the amount of approx. NIS 0.4 billion. This amount was offset by the redemption of commercial securities in the amount of approx. NIS 1.7 million. For additional details see Note 21 to the financial statements.

Credit to the Public

General. Net credit to the public, as at December 31, 2023, amounted to NIS 258,727 million, compared with NIS 241,079 million on December 31, 2022, an increase of 7.3%. The ratio of net credit to the public, to total assets reached 65.4% at the end of 2023, compared with 64% at the end of 2022.

For details regarding credit risk management including the Credit risk in housing loans, Credit risk of private individuals and Credit risk in relation to the construction and real estate sector, at the Discount Group, see "Credit risk" in Chapter C hereunder. For details regarding the quality of credit, see Note 31 to the financial statements. Also, see the document "Disclosure according to the third pillar of Basel and additional information on risks".

Composition of Credit to the Public by Linkage Segments

Composition of net credit to the public by linkage segments

	December 31, 2023		December 31, 2022		
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	Rate of change in %
Non-linked shekels	189,185	73.2	179,846	74.6	5.2
CPI-linked shekels	29,084	11.2	24,334	10.1	19.5
Foreign currency and foreign currency-linked shekels	40,458	15.6	36,899	15.3	9.6
Total	**258,727**	**100.0**	**241,079**	**100.0**	**7.3**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 9.6% compared with December 31, 2022. In U.S. Dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$669 million as compared to December 31, 2022, an increase of 6.4%. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency computed in dollar terms, increased by 6.8% as compared to December 31, 2022.

Composition of Credit to the Public by Regulatory Operating Segments

Review of developments in the balance of net credit to the public, by regulatory operating segments

	December 31, 2023				December 31, 2022	
	Unlinked shekels	CPI-linked shekels	Foreign Currency linked shekels & Foreign Currency	Total	Total	Change
	In NIS millions					in %
Domestic operations:						
Households*	81,586	19,879	86	101,552	97,457	4.2
Private banking*	357	71	26	454	490	(7.3)
Small and minute businesses	39,607	1,595	1,001	42,203	41,185	2.5
Medium businesses	17,601	1,511	942	20,053	17,224	16.4
Large businesses	53,149	6,250	8,080	67,479	58,407	15.5
Institutional bodies	272	-	1,082	1,354	416	225.5
Total Domestic operations	**192,572**	**29,306**	**11,217**	**233,095**	**215,179**	**8.3**
Total International operations*	**46**	**-**	**29,800**	**29,846**	**29,109**	**2.5**
Total credit to the public	**192,618**	**29,306**	**41,017**	**262,941**	**244,288**	**7.6**
Credit loss expenses	(3,433)	(222)	(559)	(4,214)	(3,209)	31.3
Total net credit to the public	**189,185**	**29,084**	**40,458**	**258,727**	**241,079**	**7.3**
*Of which - Mortgages	49,875	19,429	198	69,501	65,325	6.4

Review of developments in the balance of net credit to the public, by regulatory operating segments (continued)

	December 31, 2022			
	Unlinked shekels	CPI-linked shekels	Foreign Currency linked shekels & Foreign Currency	Total
	In NIS millions			
Domestic operations:				
Households*	79,445	17,913	100	97,457
Private banking*	405	58	27	490
Small and minute businesses	39,227	1,099	858	41,185
Medium businesses	15,168	1,205	852	17,224
Large businesses	47,795	4,223	6,386	58,407
Institutional bodies	366	-	50	416
Total Domestic operations	**182,406**	**24,499**	**8,273**	**215,179**
Total International operations*	**46**	**-**	**29,064**	**29,109**
Total credit to the public	**182,452**	**24,499**	**37,336**	**244,288**
Credit loss expenses	(2,607)	(165)	(438)	(3,209)
Total net credit to the public	**179,846**	**24,334**	**36,899**	**241,079**
*Of which - Mortgages	47,840	17,035	451	65,325

Credit to medium businesses grew by NIS 2,829 million (16.4%). Credit to large businesses increased by NIS 9,072 million (15.5%) and housing credit grew by NIS 4,176 million (6.4%). On the other hand, credit to households excluding housing loans decreased by NIS 89 million (0.3%).

Composition of Credit to the Public by Economic Sectors

Developments of overall credit exposure, by major principal sectors

	December 31, 2023		December 31, 2022		
Economic Sectors	Total credit to the public risk	Rate from total credit risk	Total credit to the public risk[1]	Rate from total credit risk	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Industry	25,046	6.1	22,904	6.1	9.4
Construction and real estate - construction	55,450	13.7	49,371	13.1	12.3
Construction and real estate - real estate activity	32,938	8.1	30,507	8.1	8.0
Commerce	40,454	10.0	37,998	10.0	6.5
Financial services	43,422	10.7	35,968	9.6	20.7
Private individuals - housing loans	76,014	18.7	73,674	19.7	3.2
Private individuals - other	78,265	19.3	74,956	19.9	4.4
Other sectors	54,170	13.4	50,837	13.5	6.6
Total overall credit to the public risk	**405,759**	**100.0**	**376,215**	**100.0**	**7.9**

Footnote:
(1) Reclassified -following improving of data of subsidiary.

The data presented above indicates that in 2023, the overall risk regarding credit to the public increased by 7.9% compared with the end of 2022. This growth applied mostly to financial services, construction and real estate – construction, private individuals - other and commerce sectors.

Development of Problematic Credit Risk

For details regarding identification and classification of non-accruing debts, see Note 1 D 4 to the financial statements.

Following are details on credit to the public, as specified in Note 31 to the financial statements:

Problematic credit to the public. The balance sheet problematic credit to the public (interest accruing and non-accruing) amounted at December 31, 2023 to NIS 9,090 million, compared to NIS 6,703 million at December 31, 2022, an increase at the rate of 35.6%.

Problematic credit to the public non-accruing interest. The non-accruing interest problematic credit to the public amounted at December 31, 2023 to NIS 2,384 million, compared to NIS 1,520 million as at December 31, 2022, an increase at a rate of 56.8%.

Overall credit risk and the rate of problematic credit in principal economic sectors

	December 31, 2023			December 31, 2022		
Economic Sectors	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit risk[1]	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	25,046	1,076	4.3	22,904	739	3.2
Construction and real estate - construction	55,450	1,353	2.4	49,371	1,219	2.5
Construction and real estate - real estate activity	32,938	2,181	6.6	30,507	1,361	4.5
Commerce	40,454	2,000	4.9	37,998	931	2.5
Financial services	43,422	131	0.3	35,968	5	0.0
Private individuals - housing loans	76,014	362	0.5	73,674	313	0.4
Private individuals - other	78,265	718	0.9	74,956	529	0.7
Hotels, Hotel Services and Food	4,100	338	8.2	3,842	466	12.1
Transportation and Storage	8,341	128	1.5	7,434	271	3.6
Other Sectors	41,729	1,427	3.4	39,561	1,382	3.5
Total Public	**405,759**	**9,714**	**2.4**	**376,215**	**7,216**	**1.9**
Banks	10,169	-	-	7,136	-	-
Governments	48,946	-	-	36,055	-	-
Total	**464,874**	**9,714**	**2.1**	**419,406**	**7,216**	**1.7**

Footnote:
(1) Reclassified -following improving of data of subsidiary.

In 2023 the ratio of problematic credit risk to the total credit risk increased. The problematic credit risk increased mostly in the sectors of commerce, construction and real estate - real estate activity, industry and private individuals – other, while on the other hand, the total problematic credit risk decreased mostly in transportation and storage and hotels, hotel services and food sectors.

The Balances of the Allowance for Credit Losses for Credit to the Public

The balance of the allowance for credit losses. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a collective basis, but not including allowance for off-balance sheet credit risk, stood at NIS 4,214 million as of December 31, 2023. The balance of this allowance constitutes 1.6% of the credit to the public, compared with a balance of the allowance in the amount of NIS 3,209 million, constituting 1.3% of the credit to the public as of December 31, 2022.

The balance of allowances for credit losses for non-accruing credit amounted on December 31, 2023, to NIS 505 million, compared with a balance of allowances in an amount of 248 as of December 31, 2022.

The balance of allowances for credit losses for accruing credit amounted on December 31, 2023, to NIS 3,709 million, not including an allowance for off-balance sheet (of which: for accruing problematic debts – NIS 492 million), compared with a balance of allowances in an amount of 2,961 as of December 31, 2022 (of which: for accruing problematic debts – NIS 397 million).

The Risk Characterization of the Credit to the Public Portfolio

The distribution of expenses (expense release) and the ratio of credit loss expenses in the different economic sectors in relation to the outstanding balance of credit to the public in those sectors

	For the year ended December 31			
	2023		2022	
	Credit loss expense (expenses release)	Rate of expense	Credit loss expense (expenses release)	Rate of expense (expenses release)
sectors	In NIS millions	%	In NIS millions	%
Industry	101	0.8	37	0.3
Construction and real estate - construction	285	1.0	153	0.7
Construction and real estate - real estate activity	187	0.7	25	0.1
Commerce	210	0.7	(33)	(0.1)
Hotels, hotel services and food	9	0.2	(53)	(1.6)
Transportation and storage	23	0.4	(29)	(0.5)
Financial services	64	0.3	(8)	(0.1)
Other Business Services	53	0.8	(13)	(0.2)
Public and Community Services	(2)	(0.0)	60	0.4
Other Sectors	80	0.9	43	-
Total Commercial	**1,010**	**0.6**	**182**	**0.1**
Private Individuals - Housing Loans	75	0.1	63	0.1
Private Individuals - Other	408	1.2	162	0.5
Total credit loss expenses to the public.	**1,493**	**0.6**	**407**	**0.2**
Total Banks and Governments	9	0.3	-	-
Total credit loss expenses.	**1,502**	**0.6**	**407**	**0.2**

The data shown above indicates that the increase in the credit loss expense in 2023 was focused on sectors of the private individuals – other, commerce, construction and real estate – real estate activity and construction and real estate – construction. On the other hand, a decrease was recorded in the public community services sector.

Developments in credit to the public, including off-balance sheet credit risk by borrower size (consolidated)

Approx. 99.01% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 33.0% of total credit to the public as at December 31, 2023, compared with 34.0% as at December 31, 2022. The credit bracket between NIS 1.2 million and NIS 200 million constitutes approx. 44.6% of all credit as at December 31, 2023, compared to 46.3% as at December 31, 2022. The 181 largest borrowers, in the credit brackets between NIS 200 million and NIS 7,453 million, were granted credit constituting approx. 22.5% of total credit to the public as at December 31, 2023, compared with 160 borrowers that were granted credit constituting 19.7% of the total credit as at December 31, 2022. For details regarding credit levels in excess of NIS 800 million, see "Appendices to the annual report" – Appendix 7, section 2.

For additional details, see "Credit risks" in Chapter C below, and also "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information on risks".

Securities

General. Securities in the nostro portfolio amounted to NIS 59,268 million as at December 31, 2023, compared with NIS 44,794 million at the end of 2022, an increase of 32.3%.
The security included in the "nostro" portfolio of the Discount Group, the investment in which as of December 31, 2023, amounted to 5% or over of the total amount of the portfolio, was "government variable 1130" type, which amounted to approx. 9.2%.
As of December 31, 2023, approx. 75.6% of the portfolio is invested in Government bonds, and approx. 12.9% of the portfolio is invested in bonds backed by mortgages of different federal agencies (Freddie Mac, Fannie Mae, Ginnie Mae) with an "AAA" rating, (of which - approx. 0.3% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE)). For details regarding the Bank's investments in bonds, according to economic sectors, see "Appendices to the annual report", appendix 6, sections 1-3. For details regarding the distribution of the investment in government bonds according to principal governments, see "Appendices to the annual report" – appendix 7, section 3.
Nostro portfolios management policy. The Bank's "nostro" investment portfolios and of its subsidiaries are used as a central tool in the management of linkage base and interest rate risks, the management of the liquidity buffer and the distribution of the credit risks among sectors and countries in which the exposure level of the banking credit portfolio is low. The portfolios are managed with a general overview of the Bank's balance sheet, aiming at maximizing interest income, under risk limitations determined by the Board of Directors and the Boards of Directors of the subsidiaries.
The assets and liabilities management committee is the function approving the interest rate and linkage base exposures in the Bank's balance sheet. Investments that have a credit risk component are managed within the framework of a group investment policy, which has established goals and distribution limitations and has defined areas of expertise for each company in the group.
In 2023, the securities portfolio increased by 32.3%, stemming mostly from the growth in Israeli Government bonds. Investments were made according to the principles detailed above.
Changes in the markets subsequent to the balance sheet date. Subsequent to the balance sheet date, securities prices fluctuated in the markets. On an ongoing basis, the Bank tracks the value of the marketable securities held by the Group. As of February 27, 2024, the examination revealed that the price of most of the bonds that the Bank holds had fallen. Notwithstanding, the effect on the capital fund is not material.

Composition of the Securities Portfolio by Linkage Segments

Composition of the securities portfolio by linkage segments

	December 31, 2023	December 31, 2022	Rate of
	In NIS millions		change in %
Non-linked shekels	31,660	21,961	44.2
CPI-linked shekels	3,925	2,494	57.4
Foreign currency and foreign currency-linked shekels	21,680	18,546	16.9
Shares - non-monetary items	2,003	1,793	11.7
Total	**59,268**	**44,794**	**32.3**

Securities in foreign currency and in Israeli currency linked foreign currency increased by 16.9% compared with December 31, 2022. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency increased by US$707 million, an increase of 13.4% as compared with December 31, 2022. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. Dollar terms, increased by 30.9% as compared with December 31, 2022.

Composition of the Securities Portfolio according to Portfolio Classification

According to directives of the Supervisor of Banks, securities have been classified as follows: held-to-maturity bonds, available- for- sale bonds, investment in share not for trading and trading securities.

Composition of investments in securities portfolio according to portfolio classification

	December 31 ,2023			December 31 ,2022		
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
Bonds						
Held to maturity	13,179	11,948	13,179	14,847	13,594	14,847
Available for sale	37,693	36,450	36,450	27,344	25,858	25,858
Trading	7,625	7,636	7,636	2,309	2,296	2,296
Shares and funds						
Available for sale	1,777	1,899	1,899	1,692	1,767	1,767
Trading	82	104	104	4	26	26
Total Securities	**60,356**	**58,037**	**59,268**	**46,196**	**43,541**	**44,794**

Transfer of bonds to the held-to-maturity portfolio. On May 17, 2022, the Bank, IDB Bank and MDB transferred bonds from the available-for-sale portfolio to the held-to-maturity portfolio, in a total amount of approx. NIS 4.5 billion. As required by the reporting instructions, the unrealized loss on adjustment to fair value of the said bonds at the transfer date, in a total amount of approx. NIS 450 million, is continued to be presented in other comprehensive income and amortized to profit and loss over the remaining lives of the bonds as an adjustment of yield. The balance of unrealized losses on adjustment to fair value as of December 31, 2023, in respect of the said bonds, amounted to a pre-tax amount of NIS 333 million.

Corporate bonds (excluding mortgages and assets backed bonds). Discount Group's available-for-sale bonds portfolio as of December 31, 2023, includes investments in corporate bonds in the amount of NIS 3,110 million (of which an amount of NIS 395 million is held by IDB Bank), compared with NIS 2,703 million as of December 31, 2022, an increase of 15.1%. For details as to the balance of unrealized profit (losses) included in the balance of the said bonds, see Note 12 to the financial statements.

Data by economic sectors. For details of the data relating to available-for-sale bonds, bonds held to maturity and trading bonds according to economic sectors, see "Appendices to the annual report" – Appendix 6, sections 1-3.

Impairment of held to maturity bonds. For details regarding unrealized losses on held to maturity bonds that are in a loss position, by period of time and rate of impairment, see Note 12 C to the financial statements.

Investments in Mortgage and Asset Backed Securities

General. Discount Group's securities portfolio as of December 31, 2023 includes investment in mortgage-backed and asset-backed bonds in an amount of NIS 9,297 million, compared with NIS 8,412 million as of December 31, 2022. The amount includes investment in mortgage and asset backed bonds in the amount of NIS 8,412 million, which are held by IDB Bank, compared to an amount of NIS 7,592 million as at December 31, 2022, an increase of 10.8%. Approx. 82.1% of the mortgage and asset backed securities portfolio are comprised of debentures of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AA-AAA rating in the U.S.. The investment in the said bonds does not include exposure to the subprime market.

As of December 31, 2023, the portfolio of mortgage and assets backed securities included unrealized net losses of NIS 879 million, compared with net losses in an amount of NIS 1,063 million as of December 31, 2022.

U.S. Government Sponsored Enterprises. Fannie Mae and Freddie Mac are Government Sponsored Enterprises (GSE) chartered by the U.S. Congress with mission to provide liquidity and stability to the U.S. housing and mortgage markets. To accomplish their mission, the GSE operate in the secondary mortgage market. Rather than granting home loans directly to the consumers, the GSE work with mortgage banks, brokers, and other primary mortgage market

partnerships ensuring they have the funds to lend to home buyers at affordable rates. The GSE fund their mortgage investments primarily by issuing debt securities in the domestic and international markets.
All of the GSE-MBS held by IDB Bank are performing up to their conditions.
In addition to Fannie Mae and Freddie Mac, a third GSE is the Federal Home Loan banks whose mission is to provide liquidity and stability to its U.S. member banks.
CLO. IDB Bank holds secured bonds of the CLO class in a total amount of NIS 784 million. The said securities are rated AA-AAA by at least one rating agency. The Bank holds bonds of the CLO class in the amount of NIS 885 million. The said securities are rated AA-AAA. For details, see Note 12 to the financial statements.

Details regarding impairment in value of available-for-sale bonds

Unrealized losses were recorded in 2023, included in the portfolio of available-for-sale bonds, which as of December 31, 2023 amounted to a total of NIS 1,371 million, representing approx. 3.8% of the portfolio balance (December 31, 2022 - losses in the amount of NIS 1,566 million, approx. 6.1% of the portfolio balance). The decrease in losses stems from realizations made during the year from the available-for-sale portfolio, which offset the effect of the increase in yields to maturity recorded in the bond market, mainly in US bonds. The Bank's Management estimates that these losses stem from changes in the market and not from credit losses. The classification of losses inherent in the portfolio of available-for-sale bonds is reviewed by the Bank on a quarterly basis. Based on these tests, a provision for impairment in value of NIS 24 million was recognized in the profit and loss statement in 2023 (for bonds sold after the balance sheet date).
For details regarding the review of impairment in value of available-for-sale bonds, see below "Critical accounting policies and critical accounting estimates" and Note 1 D 4 to the financial statements.
For details regarding unrealized losses on available-for-sale bonds that are in a loss position, by period of time and rate of impairment, see Note 12 D to the financial statements.

Adjustment for the presentation of available-for-sale bonds according to fair value

The balance of the adjustments presented as part of equity, for stating available-for-sale bonds at fair value, including for bonds on loan, amounted at December 31, 2023, to NIS 1,617 million unrealized losses before tax effect, compared to NIS 1,940 million unrealized gains before the tax effect, as of December 31, 2022.

Customer Assets

Deposits from the public as at December 31, 2023, amounted to NIS 297,597 million, compared with NIS 292,293 million at the end of 2022, an increase of 1.8%.

Composition of deposits from the public by linkage segments

	December 31, 2023		December 31, 2022		
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	Rate of change in %
Non-linked shekels	197,718	66.4	196,945	67.4	0.4
CPI-linked shekels	5,935	2.0	4,188	1.4	41.7
Foreign currency and foreign currency-linked shekels	93,944	31.6	91,160	31.2	3.1
Total	**297,597**	**100.0**	**292,293**	**100.0**	**1.8**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 3.1%, compared with December 31, 2022. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency decreased by US$4 million. Total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency computed in U.S. Dollar terms, increased by 0.9%, as compared with December 31, 2022.

Review of developments in the balance of deposits from the public, by regulatory segments of operations

	December 31, 2023	December 31, 2022	Change in %
	In NIS millions		
Domestic operations:			
Households	95,619	94,036	1.7
Private banking	23,529	22,319	5.4
Small and minute businesses	47,388	47,752	(0.8)
Medium businesses	17,674	15,093	17.1
Large businesses	49,214	48,002	2.5
Institutional bodies	29,005	29,655	(2.2)
Total Domestic operations	**262,429**	**256,857**	**2.2**
Total International operations	**35,168**	**35,436**	**(0.8)**
Total deposits from the public	**297,597**	**292,293**	**1.8**

The ratio of total net credit to the public, to deposits from the public was approx. 86.9% as at December 31, 2023, compared with 82.5% at the end of 2022.

Deposits from the public of the three largest depositor groups amounted as of December 31, 2023, to NIS 10,001 million.

Securities held for customers. On December 31, 2023, the balance of the securities held for customers at the Bank amounted to approx. NIS 234.95 billion, including approx. NIS 0.98 billion of non-marketable securities, compared to approx. NIS 215.55 billion as at December 31, 2022, including approx. NIS 1.75 billion of non-marketable securities, an increase of approx. 9%. For details as to income from security activities, see Note 4 to the financial statements. In addition, the balance of securities held on behalf of customers at the MDB as of December 31, 2023, amounted to approx. NIS 12.96 billion, compared with approx. NIS 11.45 billion on December 31, 2022, an increase of 13.2%.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2023, amounting to approx. NIS 21.8 billion, compared with NIS 21.65 billion as of December 31, 2022, an increase of approx. 0.7%.

Capital and Capital Adequacy

The instructions. Instructions regarding "Basel III guidelines", which apply as from January 1, 2014, include a requirement for maintaining a minimal common equity tier 1 ratio of 9%, and a total capital ratio of 12.5%. For details regarding the requirement concerning housing loans, see Note 25 section 1(b) to the financial statements.

Issues of capital instruments. The capital instruments that are permitted to be issued under the Basel III rules, include "loss absorption" mechanisms, whether by conversion into shares or by elimination (in full or in part) of the capital instrument.

Reliefs regarding the efficiency plan. The Supervisor of Banks granted the Bank relief regarding its 2018 and 2020 retirement plans. The Supervisor of Banks also granted MDB relief regarding its 2020 retirement plan. For further details, see Note 25 section 1 C to the financial statements.

Preparations made by the Bank. The Bank prepared a detailed plan for attaining the capital targets, being at least the level of capital prescribed by the policy of the Supervisor of Banks and it is acting towards its implementation.

Impact of the change in the interest rate graph. A rise of 1% in the interest rate graph would reduce the Common Equity Tier 1 ratio by 0.1%, in terms of December 31, 2023 (the calculation is based on the impact of a parallel increase in interest of 1% on the Group's securities portfolio and actuarial liabilities as of December 31, 2023, net of the tax effect). The effect of a 1% decline in the interest rate graph would lead to a rise of a similar rate in the Common Equity Tier 1 ratio.

Issuance of subordinated debt notes (expansion of Series I). On June 15, 2023, the Bank completed one issuance process of subordinated debt notes (Coco) through Manpikim, in a total amount of approx. NIS 385 million. The said issuance increased the total capital ratio by 0.16%.

Effect of the credit rating of the State of Israel. The credit rating of the State of Israel has a direct effect on the capital requirements, in view of the fact that the capital requirement for exposure to governments, to public sector entities (local authorities, for instance) and to banks, derives from the credit rating of the State. According to estimates of the Bank, if and to the extent that the credit rating of the State of Israel would decline (at 1 notch), this would have a decrease of 0.2% in the Tier 1 capital ratio at the implementation date in terms of December 31, 2023. It is noted that the lowering of the credit rating of the State of Israel, which was lately announced by Moody's Rating Agency (see "Rating of Liabilities of the Bank and some of its Subsidiaries") would not directly affect the Bank's Common Equity Tier 1. However, if the S&P Rating Agency will also lower the credit rating of the State of Israel, this will have an impact, as stated. For caution, the Bank is preparing for the possibility of the lowering of the credit rating by S&P, on which it bases the computation regarding the risk weights, in accordance with the Basel instruction, in a way that already at the present time, the capital planning assumes the lowering of the credit rating and an increase in risk assets.

Effect of the decrease in the exchange rate. There is a US dollar exposure (structural position) stemming from the investment in IDB Bank, which prevents material fluctuations in the ratio of capital to risk components as a result of changes in the dollar exchange rate. The Bank assesses that a 1% fall in the exchange rate will not affect the Common Equity Tier 1 ratio in terms of December 31, 2023.

Effect of the decrease in the inflation rate. As estimated by the Bank, a decrease of 1% in the inflation rate would reduce the Common Equity Tier 1 ratio by approx. 0.04%, in terms of December 31, 2023.

For details regarding the purchase of credit risk insurance, including guaranties, see "Large business segment (Domestic operations) – additional details".
For further details, see "Basel III" in the document "Disclosure according to the third pillar of Basel and additional information on risks".

Common Equity Tier 1 goal and total capital goal

At least once a year, the Board of Directors approves the Bank's capital goals, which comprise a Common Equity Tier 1 goal and a total capital goal. These goals are based on the policy that has been approved by the Board of Directors, which expresses the Bank's appetite for risk, pursuant to which the Bank is required to maintain a higher capital adequacy level than the rate required by the ICAAP result and according to a system stress test. It should be noted that these goals consider, inter alia, the results from the Bank's internal processes for determining the capital goals (the ICAAP results) and the results of the last SREP that was carried out, which includes a dialogue between the Bank and the Banking Supervision Department in relation to the specific risks of the Bank at the time when this process was carried out and the uniform stress tests were conducted[7].
On November 22, 2021, the Bank's Board of Directors decided, on the basis of the ICAAP and the SREP procedures as stated, including the latest uniform stress tests performed, to establish the Common Equity Tier 1 goal at a rate that is not less than 9.75% as well as establish the total capital goal at the rate that is not less than 12.6%.

For further details, see the document "Disclosure according to the third pillar of Basel and additional information on risks".

7 For the meaning of the term "uniform stress testing" and for further details, see "Stress testing" in Chapter C below, as well as "Assessing the capital adequacy" in the "Disclosure according to the third pillar of Basel and additional information on risks" document.

Capital Planning

As part of the capital planning process, the capital targets of the work plan have been set in the outline, which enables attainment of the Board of Directors' goals while maintaining a capital buffer in the event of unexpected fluctuations affecting the capital ratio, and from these the risk assets budget is derived. The allocation of the risk assets between the business units and the subsidiaries is in line with the strategic plan, while optimizing the Group's return on equity. The capital outline takes into consideration various parameters that have an effect on the capital ratios, such as: assumption of profitability consistent with the risk assets budget, dividend distribution, changes in the various capital reserves, regulatory adjustments and amortizations according to transitional instructions. The Bank examines a number of scenarios in arriving at the prescribed capital ratios.

As part of the capital management process, the Bank routinely examines its ability to attain the internal capital targets set by the Board of Directors and included in the work plan. Should the forecasted capital ratio differ considerably from that planned (by a predetermined rate), a Management discussion takes place to consider the measures that need to be taken in order to attain the prescribed outline – measures such as reducing risk assets, utilizing the capital buffer, and so forth.

For additional details, see "Capital adequacy" in the document "Disclosure according to the third pillar of Basel and additional information on risks". The document is available for perusal on the Bank's website together with the Bank's 2023 Annual Report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd..

Exposure regarding the investment in Discount Bancorp Inc.

A US dollar exposure (structural position) in the amount of US$1,222 million exists as of December 31, 2023, stemming from the investment in the banking subsidiary in New York (Discount Bancorp Inc.). This exposure prevents material fluctuations in the ratio of capital to risk components caused by the effect of exchange rate of the US dollar on the credit risk. On the other hand, changes in the exchange rate of the dollar affect the shekel value of the investment in the said subsidiary and lead to fluctuations in other comprehensive profit and in the equity capital of the Bank.

Components of Capital

Total capital as at December 31, 2023, amounted to NIS 29,238 million, compared with NIS 25,478 million at December 31, 2022, an increase of 14.8%. The increase stems, mostly, from the profit for the year.

Shareholders' equity as at December 31, 2023, amounted to NIS 28,474 million, compared with NIS 24,880 million at December 31, 2022, an increase of 14.4%.

The change in Shareholders' equity in 2023 was affected, among other things, by the net earnings during the period, from an increase of NIS 219 million in the "Net adjustments, for presentation of available-for-sale bonds at fair value", from an increase of NIS 148 million in financial statements transactions adjustments and from the net actuarial gain in the amount of NIS 79 million and from a dividend in a total amount of NIS 1,047 million, that was distributed during the period.

The ratio of total capital, to total assets as at December 31, 2023, stood at 7.4%, compared with 6.8% as of December 31, 2022.

Components of the Regulatory Capital as of December 31, 2023

Ratio of common equity tier 1 on December 31, 2023, amounted to 10.71%, as compared with 10.25% on December 31, 2022.

Total capital ratio as of December 31, 2023, amounted to 13.48%, as compared with 13.03% on December 31, 2022.

Components of the regulatory capital as of December 31, 2023

	December 31,	
	2023	2022
	in NIS millions	
1. Capital for Calculating ratio of capital		
Total common equity tier 1 after supervisory adjustments and deductions	28,890	25,353
Additional tier 1 capital after deductions	-	-
Tier 1 capital	**28,890**	**25,353**
Tier 2 capital	7,469	6,878
Total capital	**36,359**	**32,231**
2. Weighted risk assets balance		
Credit risk(2)	242,816	(3)225,052
Market risk	4,209	3,633
CVA risk	2,338	2,077
Operational risk	20,406	16,685
Total weighted risk assets balance	**269,769**	**247,447**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	10.71	10.25
Ratio of total capital to risk assets	13.48	13.03
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1(1)	9.20	9.19
Total capital ratio	12.50	12.50

Footnotes:
(1) With an addition of 0.20% (December 31, 2022: 0.19%), according to the additional capital requirements with respect to housing loans - see Note 25 section 1(b) to the financial statements.
(2) The total weighted balances of the risk assets have been reduced by NIS 155 million (December 31,2022: NIS 252 million) due to adjustments in respect to the efficiency plan.
(3) The total weighted balances of the risk assets have been reduced by NIS 555 million on December 31,2022 due to adjustments in respect to the efficiency plan.

Raising of Resources

The Bank may raise additional regulatory capital instruments according to the Bank's work plan for 2024 and market conditions, in order to maintain the total capital targets for 2024.

Additional Disclosure according to the Third Pillar of Basel

Within the framework of the "Additional regulatory disclosures" document, a description is given of the principal characteristics of the issued regulatory capital instruments. Within the framework of the document "Disclosure according to the third pillar of Basel and additional information on risks" a disclosure is given of The Regulatory capital and management thereof, including the composition of the regulatory capital. The documents are available for perusal on the Magna Site of the Israel Securities Authority, on the Maya Site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Dividends Distribution

On August 13, 2023, the Bank's Board of Directors approved an update to the Bank's dividend policy, according to which, the Bank may distribute in each quarter, a dividend of up to 40% of the distributable net earnings according to the consolidated financial statements for the previous quarter, instead of a distribution rate of up to 30%. The updating of the dividend policy was approved following attainment of the capital outline of the Bank and the consistent improvement in the business results of the Group.

It is clarified that this policy should not be deemed a commitment by the Bank for a dividend distribution or regarding the rate of dividend to be distributed, and that each dividend distribution in practice shall be subject to approvals required by the law, including a specific approval by the Board of Directors for a dividend distribution based on its judgment and subject to compliance with the provisions of the law applying to dividend distribution, inter alia, according to the Companies Law and directives of the Bank of Israel. It is further noted that the actual distribution of a dividend is subject to compliance with the capital adequacy goals prescribed by the Supervisor of Banks and the internal capital goals, as determined or would be determined by the Bank's Board of Directors. The Board of Directors may examine from time to time the dividend distribution policy and decide at any time, taking into account business considerations and the provisions of the law and regulation applying to the Bank, on changes in the dividend policy, including in the rate of dividend to be distributed. The Board may also decide that no dividend should be distributed at all.

In a letter dated November 12, 2023, the Supervisor of Banks asked the banking corporations to reexamine their policy of dividend distribution for the near future, against the background of the increase in uncertainty regarding the duration of the war and the extent of its impact on the economy.

In light of the aforesaid, and in light of the Bank's commitment to continue supporting customers and their credit needs, both during the war and on the "day after", the Bank's Board of Directors, at its meeting of November 26, 2023, decided to distribute a dividend of 15% of the third quarter of 2023 profits, totaling approx. NIS 122.6 million, which constitutes approx. NIS 9.91 Agorot per ordinary "A" share of NIS 0.1 par value (this, compared to a dividend at the rate of 30% of the profits for the second quarter of 2023).

In a letter dated March 5, 2024, the Supervisor of Banks asked the banking corporations to again review their dividend distribution policy for the near future, in light of the continuation of the war and the extent of its impact on the economy.

In light of all the aforesaid, the Bank's Board of Directors decided, in its meeting on March 10, 2024, to make a dividend distribution at the rate of 20% of the profits of the fourth quarter of 2023, in an amount of approx. NIS 183.8 million, representing approx. 14.86 Agorot per ordinary A share of NIS 0.1 par value. Further details regarding the Board of Directors' decision, including the dates set as the record date and the payment date, are included in the immediate report that the Bank is issuing concurrently with the publication of this report.

For additional details, see Note 24 C (4) to the financial statements. For details of the dividends paid in 2021-2023, see Note 24 C (5) to the financial statements. For details regarding the limitations set in the Supervisor of Banks' directives, see Note 24 C (2) to the financial statements.

Activity of the Group according to Principal Segments of Operation - Principal Quantitative Data and Main Developments

General

The regulatory operating segments have been defined by the Supervisor of Banks, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of business customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments.

According to the instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), according to the accounting principles accepted by U.S. banks in the matter of operating segments (ASC 280). However, according to directives and clarifications of the Banking Supervision Department, the disclosure in the directors' and management report shall relate to regulatory operating segments only. Note 30 to the financial statements present a quantitative disclosure of the managerial operating segments that the Bank has identified.

Concise data regarding operations in the various segments, regulatory and managerial, is presented in Notes 29-30 to the financial statements.
A summary description of segments of operation, including the criteria for assigning customers to segments of operation, in general was included above in "Discount Group Segment of operations - Condensed description" under "The Discount Group - Condensed description and principal areas of operation".
Details regarding the distribution of human resources in the Group according to segments of operation are included under "the human capital" below. For details regarding the assumptions, assessments and reporting principles used in the preparations of the data, see Note 29 D to the financial statements.
Allocation of indirect expenses. Indirect expenses are allocated to the different segments according to the model, as detailed in Note 29 D Section 2. The principal variables affecting the allocation are the scope of operations of the customers and the number of employees.

Administrative Structure

The Discount Group operates in Israel and overseas by way of the Bank, subsidiaries, branches and representative offices, in all areas of banking and financial services.
The Bank's business operations in 2023 were conducted by three divisions: Banking Division, Corporate Division and the Financial Markets Division.
The Banking Division conducts business with households and small businesses, digital banking customers and private banking customers (both Israeli and international). The Division is responsible for the operation of the investment consultants operating in investment and consulting centers and private banking centers and for mortgage activity, by means of the mortgage center and mortgage consultants placed at some of the branches. Responsibility for pension consulting was transferred in July 2023 from the Strategy and Finance Division to the Banking Division.
The Corporate Division is responsible for conducting business with large business corporations and medium corporations (middle market), as well as building (closed real estate projects) and income producing real estate corporations, major participants in the capital market, institutional bodies financing of infrastructure projects, and customers operating in the hi-tech field and in the diamond sector. In addition, the Division has a syndication unit and complex foreign trade unit. The operational services to customers of the Corporate Division is principally provided at the Tel Aviv Main Branch.
The Financial Markets Division is responsible for the financial management of the Bank and of the Group, which includes asset and liability management, dealing rooms management, market risks management, transfer prices management, capital management, "Nostro" portfolio management and management of relations with foreign financial institutions and in the management of deposit and securities products.
In addition, alongside the above-mentioned divisions, two additional business activities divisions operate at the Bank:
The Technologies Division is responsible for the online channels area, which allows the Bank's customers to obtain advanced services conveniently (from November 2023, see "Changes in Management and Organizational changes").
Operations and Assets Division which is responsible for the Bank's foreign trade activity.

Household Segment (Domestic operations)

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of 173 branches located all over the country, in addition to a variety of direct channels. The customers are classified into groups according to their age, financial wealth and additional parameters.

Scale of Operations and Net Profit of the Segment

The segment's net profit in 2023 amounted to NIS 1,774 million, compared to an amount of NIS 849 million in 2022. The growth in profits was mostly affected by growth in income, which was partly offset by an increase in credit loss expenses. The growth in income is mainly explained by the growth in net interest income, attributed mainly to the increase in margin income from deposit operations due to the rise in the Bank of Israel interest.
Credit loss expenses in 2023 expenses in an amount of NIS 490 million have been recorded, compared to NIS 222 million in 2022. The increase in expenses is due, primarily, from the collective allowance.

Principal data regarding the Household segment (Domestic operations)

	For the year ended December 31,	
	2023	2022
	in NIS millions	
Total income	6,961	4,966
Credit loss expenses	490	222
Total Operating and other expenses	3,670	3,393
Net Profit Attributed to the bank's shareholders	1,774	849

For additional details regarding the household segment (Domestic operations), including details regarding mortgage activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Private Banking Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

Net profit of the segment in 2023 amounted to NIS 226 million, compared with NIS 112 million in 2022. The growth in profits was mostly affected by growth in income.

Principal data regarding the Private banking segment (Domestic operations)

	For the year ended December 31,	
	2023	2022
	in NIS millions	
Total income	473	280
Credit loss expenses	-	1
Total Operating and other expenses	129	111
Net Profit Attributed to the bank's shareholders	226	112

For additional details regarding the private banking segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Small and minute businesses Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

Net profit of the segment in 2023 amounted to NIS 1,027 million, compared with NIS 721 million in 2022. The increase in profits was mostly affected by the increase in income, which was partly offset by an increase in credit loss expenses. The growth in profit is mainly explained by the growth in net interest income, attributed mainly to the increase in margin income from deposit operations due to the rise in the Bank of Israel interest.

The credit loss expenses. In 2023 expenses were recorded in an amount of NIS 366 million, compared to expenses in an amount of NIS 89 million in 2022. The increase in expenses is due, primarily, to the increase in the collective allowance.

Principal data regarding the Small and Minute businesses segment (Domestic operations)

	For the year ended December 31,	
	2023	2022
	in NIS millions	
Total income	3,398	2,555
Credit loss expenses	366	89
Total Operating and other expenses	1,440	1,371
Net Profit Attributed to the bank's shareholders	1,027	721

For additional details regarding the Small and minute businesses segment (Domestic operations), see in the Chapter ”Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management”.

Medium businesses Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2023 amounted to NIS 270 million, compared with NIS 221 million in 2022. The growth in profits was mostly affected by growth in income, which was partly offset by credit loss expenses.

Credit loss expenses amounted to NIS 192 million in 2023, compared to NIS 35 million in 2022. The increase mostly stemmed from an increase in the collective allowance.

Principal data regarding the Medium businesses segment (Domestic operations)

	For the year ended December 31,	
	2023	2022
	in NIS millions	
Total income	906	648
Credit loss expenses	192	35
Total Operating and other expenses	294	281
Net Profit Attributed to the bank's shareholders	270	221

For additional details regarding the Medium businesses segment (Domestic operations), see in the Chapter ”Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management”.

Large businesses Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2023 amounted to NIS 485 million, compared with NIS 528 million in 2022. The decrease in the profit was effected, mostly, from an increase in credit loss expenses and operating expenses, which was offset by an increase in income.

Credit loss expenses. In 2023 expenses have been recorded of NIS 410 million, compared to NIS 70 million in 2022. The increase in expenses is due, mostly, to the increase in the collective allowance.

Principal data regarding the Large businesses segment (Domestic operations)

	For the year ended December 31,	
	2023	2022
	in NIS millions	
Total income	1,998	1,576
Credit loss expenses	410	70
Total Operating and other expenses	784	703
Net Profit Attributed to the bank's shareholders	485	528

For additional details regarding the Large Businesses Segment (Domestic operations), including Real Estate activity, see in chapter "Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof".

Institutional Bodies Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

The net profit of the segment in 2023 amounted to NIS 20 million, compared NIS 14 million in 2022. The growth in profits was mostly affected by growth in income, which was partly offset by the increase in expenses.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the year ended December 31,	
	2023	2022
	in NIS millions	
Total income	100	77
Credit loss expenses (expenses release)	4	(2)
Total Operating and other expenses	67	59
Net Profit Attributed to the bank's shareholders	20	14

For additional details regarding the Institutional bodies segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Financial Management Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Total income of the segment in 2023 amounted to NIS 862 million, compared to NIS 1,494 million in 2022, a decrease at a rate of 42.3%. The decline in income was derived, inter alia, from the rise in cost of money on deposits, offset by a rise in cost of money on credit, a rise in interest on deposits with banks and in interest on securities.
The segment's net profit in 2023 amounted to NIS 202 million, compared to NIS 702 million in 2022, a decrease of 71.2%.

Principal data regarding the Financial management segment (Domestic operations)

	For the year ended December 31,	
	2023	2022
	in NIS millions	
Total income	862	1,494
Credit loss expenses	9	-
Total Operating and other expenses	527	465
Net Profit Attributed to the bank's shareholders	202	702

Income from trading activities

The income from trading activities in the financial management segment amounted to NIS 579 million in 2023, compared with NIS 433 million in 2022 (see Note 29 H to the financial statements). The income from trading activities that was included within the framework of interest income and within the framework of non-interest financing income amounted to NIS 864 million in 2023, compared with NIS 480 million in 2022 (see Notes 2 and 3 to the financial statements).
The gap between income from trading activity in the financial management segment (Note 29 H to the financial statements) and the income from trading activity included within the framework of interest income and within the framework of non-interest financing income (Notes 2 and 3 to the financial statements) is due to overseas activity, which is included only within the framework of the non-interest financing income (NIS 41 million in 2023, compared to NIS 53 million in 2022) and to commission from securities and inter-segment net interest and non-interest income, which are included only in income from trading activity in the financial management segment (NIS 244 million, net, in 2023, compared to NIS 6 million, net, in 2022).

For additional details regarding the financial management segment (Domestic operations), and details regarding non-financial companies' activity, and details as to the dealing room activity, asset and liability management and Global Treasury, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

International Operations Segment

Scale of operations and Net Profit of the Segment

The net profit in the segment in 2023 amounted to NIS 188 million, compared to NIS 348 million in 2022. The decrease in profit was affected by a growth in income, which was offset by an increase in operating expenses and from a loss on the sale of available-for-sale bonds in an amount of NIS 109 million (before tax).

Operating and other expenses in 2023 amounted to NIS 1,055 million, compared to NIS 834 million, an increase at a rate of 26.5%, which stemmed, mostly, from the rise in payroll expenses, stemming, mostly, from the increase in the manpower force, and an increase in computer and consulting expenses.
The credit loss expenses in 2023 amounted to NIS 31 million, compared to an expense release of NIS 8 million in 2022.

Principal data regarding the International operations segment

	For the year ended December 31,	
	2023	2022
	in NIS millions	
Total income	1,376	1,348
Credit loss expenses (expenses release)	31	(8)
Total Operating and other expenses	1,055	834
Net Profit Attributed to the bank's shareholders	188	348

During 2023, IDB Bank continued the implementation of its five-year strategy.

For additional details regarding the International operations segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Support of Customers during the "Iron Swords" War period

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.

The Bank of Israel outline

On October 15, 2023, the Banking Supervision Department published the outline aimed at easing the burden of credit and commissions for households and businesses located and operating within 30 km of the Gaza Strip, civilians evacuated from their homes by an authorized party, reservists and those called-up under a compulsory callup order ("Tzav 8"), or first-degree relatives of those killed in the war, kidnapped or missing (hereafter: "the First Circle"). The outline refers to: (1) Deferral of loan repayments for three months without charging interest and without charging fees, in three activity segments: mortgages (in relation to first home and home renovations); consumer credit (in an aggregate amount of up to NIS 100 thousand); and business credit (a business with an operating turnover of up to NIS 25 million per year, not including loans in commercial cooperation with a third party; in an aggregate amount of up to NIS 2 million); (2) not charging interest on a debit balance of up to NIS 10 thousand for customers whose account immediately prior to the outline's publication was in debit (this does not apply to reservists and those called up with a "Tzav 8"); and, (3) a three-months' exemption from commissions and fees in certain areas of activity. The remaining customers (hereafter: the "Second Circle") will be given the option to defer their loan repayments as stated without being charged commissions for 3 months, with the deferred repayments bearing interest at a rate not exceeding the interest rate in the loan contract and the payments being added at the end of the loan term. The outline is to go into effect on October 31, 2023, at the latest. On October 23, 2023, the Banking Supervision Department published an additional outline, which dealt with reliefs for customers in the First and Second Circles of credit card companies, with the repayment of loans and with exemption from commissions. The outlines prescribe a minimum condition for reliefs, and each bank and credit card company may offer additional favorable terms. On November 8, 2023, the Supervisor of Banks announced the expansion of the application of the outlines, so as to apply also to

households and businesses situated and operating in communities located in Northern Israel (evacuees or those appearing on lists published on the Bank of Israel website).
A press release was published on December 17, 2023, regarding the extension of the outline by three additional months applying as from January 1, 2024, with certain changes, the essence of which is the expansion of the populations included in the outline.
On March 4, 2024, an announcement was published regarding the extension of the outline for three more months, starting on April 1, 2024, with certain changes, the main ones being the expansion of the populations included in the outline and the expansion of benefits to the reserve servicemen population (hereinafter: "the last outline").
According to a preliminary estimate, the maximum cost of the last outline, based on the assumptions used in calculating the costs of the previous outlines, will reach approx. NIS 80-75 million.

Assistance to Discount Customers

Assistance to all customers. Upon the outbreak of the War, the Bank extended to all its customers (private individuals and small businesses) a series of benefits regarding the management of their bank account, inter alia, increasing the overdraft limit by NIS 2,000 or up to 10% of the customer's existing overdraft limit, the higher of the two. The amount of the addition, if at all exercised, will bear no interest or commission charges. This update was initiated by the Bank with no need for an application on the part of the customer, and was in effect until November 9, 2023. The period of the increased overdraft limit has been extended to December 30, 2023 in respect of customers who took advantage of this benefit. Deferral of repayment of principal of existing loans for a period of three months, applying to all customers, at no charge of commission.
Immediate assistance to customers residing in Southern Israel. Bank customers residing in the South (up to 40 km away from the Gaza Strip) have the option of taking a loan of up to twice the amount of their salary or of their business turnover, up to a total amount of NIS 24,000, free of interest or commission charges, by applying to the Bank's call center. Repayment of the loan will be spread over 24 months. In continuation of the above, the customer population entitled to such assistance has been expanded to include the remaining customers in the first circle.
Furthermore, the Bank has setup a call center providing designated service and assistance.
The Discount outline. Following the publication of the Bank of Israel outline, the Bank has decided to prolong the period of the Bank of Israel assistance outline, from a period of three months to a period of six months, applying to Discount customers of the first circle population, as defined in the Bank of Israel outline (residents of areas situated at a distance of up to 30 km from the Gaza Strip border, residents of evacuated communities in Northern Israel, hostages and missing persons (based upon a declaration), reserve servicemen on active service under Order 8 (based upon a declaration), having a first degree kinship with murdered persons).
Following are the principal items of the Bank's outline:

- Waiver of repayments of housing loans (principal and interest) applying to residents of the communities surrounding the Gaza Strip within a distance of up to 7 km from the Gaza border, and Sderot, for a period of six months. The waiver takes effect automatically, with no need for application to the Bank by the customer.
- Deferral of repayments of housing loans (principal and interest), of consumer credit loans in amounts of up to NIS 100 thousand, and of business credit loans in amounts of up to NIS 2 million (hereinafter: "entitled customers of the first circle"), for a period of six months, at no cost and with no charge of interest on the deferred amount.
- Exemption from principal commission payments (as defined) for entitled customers of the first circle, for a period of six months.
- No interest charge on overdraft up to an amount of NIS 10,000 in current accounts of entitled customers of the first circle, for a period of six months (except for reserve servicemen on active service under Order 8 populations).

MDB. MDB has also joined the Bank of Israel outline, when it too joined in waiving housing loan repayments (principal and interest) for 6 months for residents of the communities surrounding the Gaza strip, that are within 7 km of the Gaza Strip border, and of communities that were evacuated in the north of the country. The waiver went into effect automatically, without the customer needing to apply to the Bank. In addition, MDB offers customers being local authorities, or corporations related to activities of local authorities, to defer repayments of loans for a period of three months with no commission charges but with loan interest charged on the amount deferred.
ICC. ICC grants customers residing in Southern and Northern Israel and additional customer population exemption from credit card fees as well as deferral of payments. Furthermore, ICC implements the relief outline published by

the Bank of Israel in relation to credit card companies. In addition, ICC allowed deferral of loan repayments and the spreading of charges at no cost to private customers, for a period of three months as well as making advance payments at no cost to business customers. Representatives of ICC were physically present at the evacuation centers for resident of communities surrounding the Gaza Strip in order to offer frontal service to evacuees.

Estimate of the Cost of Support of Customers

Benefits to customers within the framework of confronting the "Iron Swards" War

	Housing	Private individuals – other	Small and minute businesses	Medium businesses	Large businesses	Other	Total
				In NIS millions			
				December 31, 2023			
Changes in terms of debts[1]	39	16	13	-	-	-	68
Interest free loans or at lower interest rates	-	8	2	-	-	-	10
Waiver of commission	-	24	5	-	-	-	29
Support of the community[2]	-	-	-	-	-	70	70
Total benefits granted by the Bank	**39**	**48**	**20**	**-**	**-**	**70**	**177**
Benefits not yet exercised	18	51	30	-	-	-	99
Total estimate of benefits under fully exercised assumption	**57**	**99**	**50**	**-**	**-**	**70**	**276**

Footnote:
(1) Including waiver of interest, waiver of principal, deferral of repayments and/or extension of repayment period.
(2) See "Support of the community during the "Iron Swords" War period" below.

The effect of the benefits is expected to reduce commission income and interest income in an estimated amount of approx. NIS 177 million. The said amount estimates the future adverse effect on income. The waiver of housing loan repayments (principal and interest) was charged in full to profit and loss in the fourth quarter of 2023. The rest of the customers' benefit components will affect the business results according to the benefit period for each individual component. The support for the 'Keren Or' Foundation will be charged to profit and loss gradually. The remaining community support expenses during the "Iron Swords" War are charged to profit and loss on an ongoing basis.
The total impact of customer and community support is estimated at approx. NIS 276 million (not including the estimate of the impact of the last outline).
The total impact of customer and community support, on the financial reports as of December 31, 2023, is estimated at approx. NIS 60 million.
The main assumptions used in the estimate. In accordance with guidelines of the Supervisor of Banks, the Bank has made an estimate of the maximum cost of the benefits. The estimate was computed according to the outline adopted by the Bank, which, as stated, is wider than the outline of the Bank of Israel. With regards to part of the benefits, the estimate is made on the actual number of customers in the relevant sector/zone was taken. Regarding part of the benefits, the number of customers was estimated on the basis of the share of the Bank in activity of the banking sector in the particular segment and the rate of credit consumers of the relevant products. Estimate of the cost of benefits was computed on the basis of the interest on the loan and the period of deferral In estimating the cost of commission benefits, the Bank took into account that part of commission income of the Bank to which exemption applies according to the outline, equal to the ratio of customers entitled to the benefits (part of whom in accordance with the estimate, as stated) to the total number of customers of the Bank. The cost of waiver of mortgage repayments was computed on the basis of the actual cost.
Forward looking information. Estimates made by the Bank regarding the cost of benefits granted to customers, are considered forward looking information, based upon the information in the hands of the Bank at date of preparation of this Report and on the main assumptions, as detailed above. Included in the above, the Bank assumed, in accordance with guidelines of the Supervisor of Banks, that all entitled customers would exercise their right to the benefits offered by the Bank. Furthermore, the estimate makes use of different average data. These assumptions may not become realized or may be realized differently than assumed by the Bank; therefore, actual cost may be materially different than that estimated by the Bank.

Additional information regarding activities in aid of borrowers within the framework of confronting the War

	Housing	Private individuals – other	Small and minute businesses	Medium businesses	Large businesses	Total
	December 31, 2023					
	In NIS millions					
Balance of credit with changes in debt terms(1)	5,662	1,175	4,992	1,671	2,337	15,837
Amount of deferred repayments	170	108	513	115	170	1,076
Average repayment deferral in months	6.1	4.7	3.8	3.1	4.5	4.2
Of which: problematic credit	35	19	178	36	97	365
Of which: credit that had undergone troubled debt restructurings	–	11	46	–	–	57
Balance of loans granted interest free or at lower interest rates	–	60	23	–	–	83
Average interest rate (in %)	–	–	–	–	–	–
Average "Prime" interest rate (in %)	6.0	6.0	6.0	6.0	6.0	6.0
Loans granted under State guaranteed funds						
Balance of credit	–	–	861	93	–	954
Average interest rate (in %)	–	–	7.3	7.6	–	7.3
Of which:	–	–	–	–	–	–
Balance of credit granted under the Bank of Israel finance	–	–	218	–	–	218
Average "Prime" interest rate (in %)	–	–	6.3	–	–	6.3
Balance of credit granted under the Bank of Israel finance (including by way of State guaranteed funds)						
Balance of credit	–	–	372	3	–	375
Average interest rate (in %)	–	–	6.2	6.3	–	6.2

Footnotes:

(1) Including waiver of interest, waiver of principal, deferral of repayments and/or extension of repayment period.

Loans to small businesses

Loans to adversely affected businesses. The Supervisor of Banks announced on November 6, 2023, a focused monetary program, according to which, the Bank of Israel will provide banks with monetary loans bearing Bank of Israel variable interest rate less 1.5%, in an amount of up to NIS 10 billion, against loans granted by the banks to small and minute businesses which had suffered loss of revenues of at least 25% as a result of the War. This, on condition that the average rate of interest charged on the loans to such businesses shall not exceed the "prime" rate of interest. The allocation of the monetary loan is made on the basis of a request that the banking corporation submits after the loan to the customer is set up.

State guaranteed loan Fund. On November 5, 2023, an "Iron Swords" track was introduced by the State guaranteed Loan Fund for small and middle market businesses, in which the banks participate as providers of credit. Within the framework of this track, it has been decided that the average rate of interest applicable to the loans would be at a margin that would not exceed 1.5% over the "prime" rate of interest.

On November 12, 2023, the Accountant General at the Ministry of Finance issued a letter to CEOs of the banks, requesting that the small and middle market businesses taking loans under the said "Iron Sward" track of the State guaranteed Loan Fund, would enjoy the terms applicable to the Bank of Israel monetary loans, so that the weighted average of the interest margin regarding these loans would not exceed the "prime" rate of interest.

Main investee companies

General

The Bank's Group is composed of commercial banks in Israel and overseas and financial services companies. Total investment in the investee companies as at December 31, 2023, amounted to NIS 14,784 million, compared with NIS 12,852 million on December 31, 2022, an increase of 15.0%.

Distribution of Net profit by the Group's structure

	Contribution to the Group's profit				
	For the year ended December 31				
	2023		2022		
	In NIS millions	% of Net profit	In NIS millions	% of Net profit	Change in %
Banking Activity:					
Commercial banks:					
In Israel - the Bank	2,728	65.1	2,292	65.7	19.0
Mercantile Discount Bank	977	23.3	601	17.2	62.6
Overseas - Discount Bancorp	190	4.5	347	9.9	(45.2)
Other Activities:					
Israel Credit Cards	226	5.4	190	5.4	18.9
Discount Capital	89	2.1	85	2.4	4.7
Other financial services	(18)	(0.4)	(20)	(0.6)	10.0
Net profit	**4,192**	**100.0**	**3,495**	**100.0**	**19.9**

At the end of 2023, 21.09% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and approx. 11.05% were assets of the overseas consolidated company. The contribution to the net profit by the consolidated companies in Israel amounted to NIS 1,267 million in 2023 (NIS 849 million in 2022). The contribution to the Net profit by overseas consolidated companies amounted to NIS 193 million in 2023 (NIS 351 million in 2022). The contribution to net profit recorded in 2023 for associates amounted to NIS 4 million (NIS 3 million in 2022).
The total contribution by both domestic and overseas investees companies to the Bank's net profit amounted to NIS 1,464 million in 2023, compared with NIS 1,203 million in 2022, an increase of 21.7%.
The Bank evaluates the performance and opportunities of the principal investee companies, an evaluation that includes, from time to time, an examination of the strategic alternatives relating to the principal investee companies. Following are the main developments in principal investee companies.

Banking Activity in Israel

Discount Bank and MDB
Net profit – NIS 3,704 million
Return on equity - 19.3%
Efficiency Ratio – 42.3%

Discount Bancorp, Inc.

Discount Bancorp, Inc. (hereinafter: "Bancorp") is a fully owned and controlled subsidiary of the Bank, which is a bank holding company, incorporated according to the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB Bank). IDB Bank is a commercial bank that is registered in the State of New York, a member of the FDIC (the Federal Deposit Insurance Corporation). IDB Bank is the only American bank fully under Israeli ownership. Pursuant to Bancorp's Certificate of Incorporation and By-Laws, IDB Bank may not be sold by Bancorp unless the Bank has given its consent.
The data presented hereunder in this section have been taken from Bancorp's audited financial statements.

Discount Bancorp, Inc. – principal data

	Fourth Quarter		year	
	2023	2022	2023	2022
	In US$ millions			
Principal statements of profit and loss data for the reporting period:				
Net profit (loss) attributed to the shareholders	(5)	32	64	114
Net interest income	80	92	335	335
Credit loss expenses (expenses release)	5	1	8	(3)
Non-financing income (expenses)	(10)	12	45	68
Non-financing expenses	77	64	292	255
Principal balance sheet data for the end of the reporting period:				
Total assets	12,219	12,512	12,219	12,512
Credit to the public, net	8,102	8,154	8,102	8,154
Securities	2,608	2,460	2,608	2,460
Deposits from the public	10,316	10,479	10,316	10,479
Total equity	1,222	1,121	1,222	1,121
	In %			
Main performance indicators:				
Return on equity	(1.8)	11.5	5.5	10.2
Efficiency ratio	110.0	61.5	76.8	63.4
Ratio of total capital to risk assets	15.7	15.1	15.7	15.1
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	0.24	0.06	0.10	(0.03)
Total net return on interest bearing assets	2.77	3.19	2.90	2.80

The main factors affecting the results in 2023, compared to 2022, are: no change in net interest income, effected, among other things from a loss on realization of securities in the fourth quarter of the year; an increase in credit loss expenses (US$11.1 million); and the increase in total operating and other expenses (US$37.7 million; 14.8%) stemming, mostly, from the rise in payroll expenses (approx. US$19.4 million; 15.2%), which stemmed from the increase in the manpower force, which was partly offset by provisions for bonuses, an increase in consulting expenses (approx. US$8.3 million; 48.5%) in issues relating to compliance and risk management, which was partially offset by a decrease in other expenses (approx. US$4.1 million).
The contribution of Bancorp to the Bank's net results reached a profit of NIS 190 million (after deducting a provision for taxes of NIS 42 million) in 2023, compared with NIS 347 million in 2022 (net of provision for taxes in the amount of NIS 54 million).
Distribution of dividend. No dividend was distributed by Bancorp in 2022-2023.
For details regarding proceedings concerning certain matters relating to IDB Bank's compliance plan, see below "Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations" in section "International Operations Segment - Additional Details".
The annual financial statements of Bancorp and of IDB Bank are available for review on the Internet website of IDB Bank. Annual and quarterly financial data is available for review on the Internet website of FDIC.

Mercantile Discount Bank Ltd.

Mercantile Discount Bank Ltd. ("MDB") is a fully owned and controlled subsidiary of the Bank. At the end of 2023, MDB operated through 73 branches (73 branches in 2022).

Mercantile Discount Bank Ltd. – principal data

	Fourth Quarter		year	
	2023	2022	2023	2022
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	285	151	977	601
Net interest income	536	521	2,284	1,746
Credit loss expenses	87	78	314	155
Non-financing income	209	97	533	376
Non-financing expenses	252	310	1,048	1,051
Principal balance sheet data for the end of the reporting period:				
Total assets	63,789	64,786	63,789	64,786
Credit to the public, net	45,678	42,569	45,678	42,569
Securities	7,410	6,988	7,410	6,988
Deposits from the public	50,306	51,047	50,306	51,047
Total equity	4,977	4,055	4,977	4,055
	In %			
Main performance indicators:				
Return on equity	23.8	15.1	21.9	15.7
Efficiency ratio	33.8	50.2	37.2	49.5
Ratio of total capital to risk assets	14.98	13.60	14.98	13.60
Ratio of credit loss expenses to the average balance of credit to the public	0.76	0.73	0.70	0.38
Total net return on interest bearing assets	3.64	3.39	3.75	2.92

The main factors affecting the business results. The profit in 2023, compared to 2022, was affected, mostly, by the following factors: an increase of NIS 159 million in credit loss expenses; an increase of NIS 538 million in net interest income (an increase of 30.8%), which stemmed mainly from the rise at an average rate of 3.25% in the Bank of Israel interest, from the rise at a rate of 2.0% in the average balance of the income producing assets and from a rise at the rate of 0.42 basis points in the interest margin; an increase of NIS 36 million in non-interest income (an increase of 163.6%); an increase amounting to NIS 111 million in other income, resulting from the consummation of the sale of the Bank's Head Office building; and stability in the base of the operating expenses (a decrease of 0.3%).
The ratio of capital to risk assets. MDB's Board of Directors has set a minimal common equity tier 1 ratio of 9.5% and a minimal total capital ratio of 12.8%, with effect from April 1, 2022 and thereafter.
Distribution of dividend. During 2022-2023 MDB did not distribute dividend.
Strategic plan. The Board of Directors of MDB approved in the fourth quarter of 2021, a multi-annual strategic plan for the years 2022 to 2026, which includes a number of principal directions of action: expansion of the retail activity of the bank (households, housing loans and small businesses), with growth in specific segments of the population; growth in activity regarding commercial customers; increasing activity with local authorities, including activity with suppliers of local authorities and with employees of local authorities; operating efficiency.
For details regarding lawsuits and applications for approval of the lawsuits as class action suits filed against MDB, see Note 26 C to the financial statements, sections 9.7 and 10.6.
The annual and quarterly financial statements of Mercantile Discount Bank are available on the MAGNA website of the Israel Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. appearing under "Mercantile Issuance", and on the website of Mercantile Discount Bank.

Israel Credit Cards Ltd.

Israel Credit Cards Ltd. (”ICC”) is a subsidiary of the Bank. As of December 31, 2023, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC. At this date, the First International Bank held the balance of the rights in ICC.

For details regarding the separation of ICC from the Discount Group, see Note 36 B 1 to the financial statements.

A letter of understanding between the shareholders of ICC. The Bank and FIBI established a letter of understanding between them as shareholders of ICC, which is to regulate several issues, including: the distribution of dividends by ICC, entering into new issuance agreements, actions taken to increase the number of credit cards in use and assisting measures for the sale of the holdings of FIBI in ICC, in the event that FIBI would decide to realize it’s holdings.

Israel Credit Cards Ltd. – principal data

	Fourth Quarter		year	
	2023	2022	2023	2022
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	26	39	450	309
The contribution to the Bank's business results(1)	16	24	226	190
Income from credit card transactions	401	428	1,751	1,651
Net interest income	213	178	822	680
Non-interest Income	-	(7)	310	102
Non-financing expenses	572	541	2,286	1,992
Of which: Credit loss expenses	98	43	285	97
Principal balance sheet data for the end of the reporting period:				
Total assets	19,378	18,547	19,378	18,547
Interest bearing credit to the public	9,005	8,183	9,005	8,183
Total equity	2,447	2,120	2,447	2,120
	In %			
Main performance indicators:				
Return on equity	4.2	7.4	19.5	14.3
Efficiency ratio	77.2	83.1	69.4	77.9
Ratio of total capital to risk assets	14.3	13.5	14.3	13.5
Turnover of credit card transactions – in NIS millions	38,048	38,770	163,002	149,851
Number of active cards – in thousands	3,467	3,330	3,467	3,330

Footnote:

(1) Differences between net income and the contribution to the Bank's business results is derived from recognition of current tax liability in respect of the investment in the company.

The business results of ICC for 2023, compared to 2022, were mostly affected by an increase in income (NIS 184 million, 7.7%), stemming mostly from the increase in income from credit card transactions (NIS 100 million, 6.1%), which mostly stemmed from the growth in the issuance rounds of the company and in particular from the growth of transactions abroad, and from an increase in net interest income (NIS 142 million, 20.9%),which mostly stemmed from growth at the rate of 10.0% in the credit portfolio of the company. On the other hand, expenses of the company increased (NIS 214 million, 10.7%), which mostly stemmed from growth of the volume of operations of the company and in credit loss expenses (NIS 188 million, 193.8%), resulting mainly from the increase in net write-offs alongside the rise in allowances regarding the credit risk of the portfolio, including in respect of borrowers the credit risk of which had possibly grown as a result of the War, though not yet identified.

Profits in 2023 were affected, inter alia, by gains on the sale of the company’s building in Givataim, in the amount of NIS 231 million, net of the tax effect, and on the other hand, by recognition of an expense for the ”phantom” option granted to EL AL Company in the amount of NIS 37 million, net of tax effect. Profits in 2022 were affected, inter alia, by gains on the sale of the VISA Inc. shares, in the amount of NIS 23 million, net of the tax effect (see Note 12 K to the financial statements).

Impact of the "Iron Swords" War. The activity of ICC is directly affected by the activity of the Israeli economy. Accordingly, the War had in the short-term a material effect on the scope of transaction turnover of the company, on the scope of demand for credit and on the credit losses of the company, in respect of customers and trading houses that had been affected by the implications of the War.

Distribution of dividend. On March 31, 2023, ICC distributed to its shareholders a dividend of NIS 74 million (the share of the Bank is approx. NIS 53 million).

Strategic plan. In the course of 2021, ICC formed a multi-annual strategic plan for the years 2022-2026, which was approved by the company's Board of Directors in December 2021. Standing at the base of the plan is the continued positioning of the company as a leader in the off-banking payments and credit activities by means of flexibility, innovation and corporations, alongside the striving for an optimal customer experience, and considering the incessant changes in the competitive environment in which ICC operates. In 2024, ICC intends to continue and implement the multi-annual strategic plan, comprising mostly of the creation of future growth generators and establishing its leadership in core operations.

The strategic focal points of ICC are:

- Creation of future growth generators;
- Establishing leadership in core operations;
- Modification of the organization to the "new world", including operating excellence, technological and business agility and creation of an advanced data and digital infrastructure.

The ratio of capital to risk assets. On July 16, 2023, the Board of Directors of ICC resolved that the target for the Tier I equity ratio would be 9.9% and the target for the total capital ratio would be 11.9%.

For details regarding activity in the credit card field in Israel, see in the chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof", and in Note 36 to the financial statements.

For details regarding lawsuits and applications to approve them as class action suits filed against ICC, see Note 26 C to the financial statements, sections 9.1, 9.4 and 9.8.

The annual and quarterly financial statements of ICC are available for review on the Internet website of ICC.

Discount Capital Ltd.

Discount Capital, a fully owned and controlled subsidiary of the Bank, which is engaged in three main areas of operation:

- Investments in companies, private equity funds and in venture capital funds and mezzanine;
- Investment banking, including consulting and management of mergers and acquisitions (M&A), corporate finance consulting and advising in rating processes;
- Initiating and advising public offerings and private placements and providing underwriting and distribution services, by means of the subsidiary, Discount Capital Underwriting Ltd.

Discount Capital – principal data

	In NIS millions		
Principal statements of profit and loss data for the Year:	2023	2022	Change in %
Net profit attributed to the shareholders	102	108	(5.6)
The contribution to the Bank's business results[1]	89	85	(23.5)
Principal balance sheet data for the end of the reporting period:	December 31, 2023	December 31, 2022	
Total assets	2,690	2,579	4.3
Total equity	1,407	1,293	8.8

Footnote:
(1) Differences between net income and the contribution to the Bank's business results is derived from current tax liability for the investment on the company.

For details regarding income from the investment portfolio of Discount Capital, see below in "Financial Management Segment (Domestic operations) – additional details".
The profit in the years 2022-2023 was affected mainly by the volume of realizations.
During 2023, Discount Capital, through a subsidiary, participated in 35 public offerings of which, one public offering for the Discount Group and 22 private placements, of which one private placement for the Discount Group, with a total volume of approx. NIS 27 billion (in 2022 - 37 public offerings of which, 3 public offerings for the Discount Group and 22 private placements, of which one private placement for the Discount Group, with a total volume of approx. NIS 27.8 billion).
For additional details regarding activity in the investment field, see "Investments in non-financial corporations", in the Chapter "Activity of the Group according to Regulatory Segments of Operation - Additional Details" and Note 30 B to the financial statements.

Chapter C - Risks review

General Description of the Risks and Manner of Management thereof

Risk Profile of the Discount Group - Risk Environment

The Discount Group is engaged in a wide range of financial operations including international presence through IDB Bank. The complexity of the risk environment (domestic and international, regulatory and internal), as well as the uncertainty regarding the continuation of the War and the impact of the competition environment, comprise a challenge in the risk management field alongside the business challenges.
Following are the major external effects, to which the Group is exposed, are:

- **The macro-economic environment - the interest environment and the impact of the War.** The negative impact of the War on the local economy and the uncertainty regarding the derivatives of future effects, alongside anticipation for the lowering of the interest rate, increase expectations for a negative impact on income, on the repayment ability of borrowers and on the profitability of the banking system;
- **Intensified competition, profitability risks and the business model.** Expectations for the lowering of the interest rate, alongside the rising prices of the financing sources and erosion in margins, as well as the expected negative impact on the repayment ability of borrowers, lead, as stated, to a rise in the business model risk in view of the expected negative impact on the profitability of the banking system. Accordingly, the importance of promoting efficiency measures is growing, including by way of adoption of innovation. Within the framework of the strategic plan, the Bank has set goals and focused projects for the improvement of the organizational effectiveness, increasing customer satisfaction, and maximizing the value of the Group. The Group is preparing for the separation from ICC;
- **Cyber risks.** Intensification of the technological risks, including the increase in the means, sophistication and complexity of cyber-attacks in Israel and globally is leading to an increase of cyber and data protection risks and to the regulators and supervisory authorities, in Israel and globally, focusing on regulating such threats and on their supervision, as across the board threats, which, in addition to the technological risk, lead to growth in fraud risks and may develop also into a strategic business risk. The exposure to cyber risks and data security increased in view of the transition to cloud, growth in cooperation with third parties and the transfer of operations to outsourcing alongside the growth in digital activity. The Group has a cyber policy and strategy as well as a multiannual work plan for improvement of cyber defense, including the strengthening of the network defense and its components, improving forestallment and monitoring tools, identification of irregular activity and upgrading infrastructure. The Group continues to conduct situation evaluations as to the resistance of the Bank to attack outlines as well as conducting intelligence researches, while understanding the different ways of attack;

- **Fraud risk.** In recent years, growth is noticed in the volume of fraud attempts in the system and in the total fraud damage as well as increasing growth in complexity and ingenuity of fraud. The Bank and the Group adopt measures for the strengthening of validation processes and reduction in exposure while combining advanced protection abilities alongside controls and increased monitoring;
- **Compliance and prohibition of money laundering.** Regulation and sanction challenges in the fields of compliance risk and prohibition of money laundering and finance of terror, mainly in view of the application of a sanctions regimen and challenges of the War;
- **Model risks.** The ever-increasing emphasis on digital banking, alongside customers' higher expectations for value propositions, insights and products that are tailored, timely and readily available, is leading to a situation where organizations in general and the banking system in particular are becoming more and more dependent on data and models, including the integration of sophisticated models based on artificial intelligence and machine learning. These aspects are creating growing challenges both in the field of model development and also in the fields of models validation and risk management. The Group is implementing a multi-year work plan for the development of sophisticated models, as well as for the constant improvement of the tools and methodologies that support the model risks management. An increase was noted in 2023 in model risks stemming from varied changes in the macro-economic environment in the business environment and in the regulatory environment. These changes require careful use of models, testing their forecasting ability and their updating, where required.

The Table of risk factors below presents the principal changes that had occurred in the Group's risk profile.

Principles of Risk Management

Continuation of the global trend for the recognition of the risk management field as an essential component in the activities of a banking corporation and for emphasizing the need of establishing the risk management concept and its integration in current operations and in the business decision making process. The Bank is studying the various risks to which the Group is exposed from a forward-looking Group standpoint. The Board of Directors and Management apply great importance to risk management aspects and to the absorption by the Bank and its subsidiaries of a proper risk management culture, while allotting the required resources for this purpose and determining focuses in these fields as part of the Group goals.

High-level principles for risk management in the Discount Group:

- Risk management is performed from a Group integrated viewpoint, cross organization, along the management echelon and across the business units, using methodologies and consistent terms with reference to all types of risks to which the group is exposed;
- Group corporate governance, which supports the maintenance of an effective chain of control over the activity of the group, subject to the provisions of the law;
- Responsibility for risk management is hierarchical, where each managerial level bears responsibility for the risks existing in its scope of operation, in a manner ensuring aggregation of risk management at all management levels up to the member of Management in charge of the business line, including the maintenance of proper procedures for identification, measurement, assessment, control, monitoring and reporting of risks;
- A senior officer in the position of member of Management is in charge of each of the material risks to which the Group is exposed. He bears the overall accountability for management of the risk in the first line of defense;
- The risk management concept supports the eligibility and improvement of decision making processes and value maximization from a long-term viewpoint;
- The Bank's activity is conducted according to the Bank's vision and the principles of the code of ethics, which express the core values of the Bank's activity and its interface with stakeholders, customers, suppliers, employees, etc.;
- The organizational culture encourages transparency and an effective intra-organizational communication, while allowing for a proper flow of information, including for violation/failure events, to all the functions involved in the handling of risks.
- Risks are being managed while maintaining the separation of duties and controls between the defenses lines involved in the risk management;

- A dynamic and evolving over time risk management concept according to changes in the requirements of the Bank and the Group, regulatory instructions, accepted practice in Israel and around the world and conditions in the inner and external environment;
- Risk management is conducted on a continuous basis, from a forward looking viewpoint, which includes processes of identification, measurement, assessment, monitoring, control and current reporting of exposure to risks, management thereof and their implications on the risk profile, alongside the identification of materializing and new risks;
- Risk management processes are being integrated as part of the current business activity, and they are integrated into material processes and projects at the Bank and the Group, including "new product" processes, where required and the absorption of risk based indices in the measurement of performance and of compensation plans;
- The risk management processes include proactive measures for risk management and for the formation of an effective organizational culture and the integration of control culture, with an emphasis on integration of fairness and decency values into operations and processes.

Risk Appetite

The Risk Management Division is responsible for the updating of the risk appetite, in conjunction with the capital planning process, the strategic planning and liquidity planning, in a manner that these processes be integrated, complement one another, with the objective being to marry the Group's return and maintain its stability in a long-term view.
The Discount Group's risk appetite declaration is in line with the requirements of Proper Conduct of Banking Business Directive No. 310, while determining risk appetite and tolerance, in qualitative and quantitative terms, including the definition of indicators and warning thresholds, as detailed within the framework of the specific risk management policy documents.
The risk appetite declaration and the individual risk appetite documents drawn up pursuant thereto constitute one of the main tools of the Board of Directors for supervising that the corporation's risk profile correlates with the set appetite, and these are monitored on an ongoing basis and reported periodically to the Board of Directors. According to the declaration, any exception to these limits is reported to the Board of Directors, or to one of its committees, while prescribing an outline for reducing the level of risk and complying with the limits.
The limits of the overall declaration and the specific declarations regarding the different risk areas are determined, inter alia, on the basis of use of scenarios and of different stress tests, comprising a central and important tool in evaluating risks and their possible impact on the capital of the Group. The declaration includes statements and limits relating to an ordinary course of business situation as well as to stress situations, and from a forward looking viewpoint.
The risk appetite declarations of the Group companies correspond to the Group declaration and are in alignment therewith. Once a year, concurrently with the planning processes for the work plan, the capital and the liquidity, a review is carried out of the risk appetite and the Group declaration document is updated and approved by the Board of Directors.
No deviations from regulatory restrictions occurred in 2023.

Risk Management Policy and Tools

The risk management concept of the Group is established in a series of policy documents for the management of the various risks. These have been approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the definition of authority and responsibility of the functionaries taking part in the risk management processes, definition of the tools, methodologies and models used for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.

The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments. For additional details regarding the various tools used in risk management and the integration of the risk culture, see "Risk management tools" and "Risk culture and absorption of the usefulness of risk management processes" in the document "Disclosure according to the third pillar of Basel and additional information on risks".

Assessment of the Risk Profile

Once a year, the Group conducts a process of self-evaluation of the risk profile (within the framework of the ICAAP process), combining the three lines of defense, within the framework of which, the inherent risk and the residual risk are being assessed based on the quality of management. This process determines also the risk outlook from a forward looking viewpoint. In addition, within the quarterly risk document, the Group conducts the quarterly monitoring of changes in the risk profile of the Bank and of companies in the Group, based on the Group tools and methodologies developed for the support of the monitoring of changes in risk profile, including the implementation of identification, measurement, assessment, monitoring, control and reporting processes, which include also the follow-up of limitations, indicators and various alert limits, including in comparison with the banking industry.
The quarterly risk document summarizes material changes that had taken place in the Group risk profile, with reference to the different risk areas. This document serves as a supporting tool for the Board of Directors and the Management in the monitoring of developments in the risk profile, in line with the risk appetite and with the long-term goals of the Group, while verifying the maintenance of capital appropriateness over a period of time.
In this framework, the Bank also reviews material changes in the quality of risk management, including their impact on the quality and effectiveness of the risk management processes, and subjects and issues are brought up, allowing the focusing of discussions and the passing of risk based resolutions.
The Group conducts a continuous capital adequacy assessment process, intended to verify that the capital of the Group is adequate and supports the entirety of risks inherent in its operations, both in the ordinary course of business and in stress situations. In this framework, the Bank tests also the quantitative effects on the capital of the Group while using different scenarios and stress tests as detailed below.

Examination of the impact of stress tests and evaluation of capital adequacy

Once in each year, the Group conducts a capital adequacy evaluation process. One of the main tools for assessing the risks and their potential impact on the capital and the risk appetite is the use of forward looking holistic stress tests as a complementary tool for the risk management processes.
The use of stress tests is intended to provide management with a warning of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.
The Group operates within the framework of an organized methodology, which has been developed over time, and which has been implemented at the Bank and at the Group companies for assessing the impact of the stress tests on credit risks, market risks and on certain components of the statement of profit and loss by means of internal models which enable to examine the effects of changes in macro-economic parameters on the statement of profit and loss items and on the equity and on identified vulnerability areas/specific risk centers.

Disclosures according to the Third Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented above and below in this Chapter and in the document "Disclosure according to the third pillar of Basel and additional information on risks". The document is available for perusal on the Bank's website together with the Bank's 2023 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2023 annual report.

Credit Risks

Credit Risks and the manner of Management thereof

The credit risk management concept of the Bank and of the Group is aimed at ensuring a proper balance between the business functions, which directly create exposure to credit risk and managing it, and the functions engaged in supervision, control and the independent evaluation of risks, as well as the functions engaged in audit.

Credit Policy Documents

The core documents relating to credit include the risk appetite and credit policy document of the Discount Group, the Bank's standalone credit policy, the credit risk management policy document and the credit policy documents of each subsidiary, which serve as the infrastructure for credit risk management at the Bank and the Group, as well as the procedures and methodologies in the credit field being an integral part of the management and credit granting framework, according to which operations have to be conducted.

Credit Risks Measurement and Reporting

The Discount Collective bases the credit risk concept according to worldwide accepted advanced methods, using models for the assessment of risk (statistical and other) based on banking conduct, financial data and qualitative questionnaires for the assessment of borrower risk (probability of default – PD) and the loss expected there from, inter alia, in view of the scope and quality of the collateral (loss given default – LGD). The Bank and the Group makes use of several measurement and reporting systems supporting credit risk management.

Structure and Organization of the Credit Risks Management Functions

The organizational structure that serves the management of credit risk at the Bank is compatible with the risk management model adopted by the Discount Group in the framework of the Risk Management core document and includes the definition of authority and responsibility of the functions involved in managing the risk at the Bank – the Board of Directors, Management and three separate lines of defense:
First line of defense. The business units perform on a current basis processes for mitigating credit risk by means of the economic and business analysis of applications for credit for assessing the credit risk involved in the operations of the borrower, credit rating and current monitoring and control of the credit granted and the quality of the borrower.
The control units are responsible for the credit risks management related to the operations of the business divisions, as well as for the performance of current monitoring and control processes and the writing and updating of methodologies and procedures in the credit field. Among these units may be mentioned the credit risk management Subdivision of the Corporate Division, the retail credit Subdivision and the risk management, compliance and control Section at the Banking Division.

The credit committees discuss and take decisions regarding credit issues, both as regards new credit applications and as regards existing indebtedness.

Second line of defense. The risk management division is responsible for the formation and updating of the credit policy and risk appetite documents, the current evaluation of the credit risk profile of the Bank and the Group, the development and implementation of internal models for credit rating and Group methodologies for the management of credit risk. In addition, the risk management division is responsible for the post factum examination of the manner of credit risk management at all its stages, providing assessments of specific credit quality and the quality of the credit portfolio as a whole, as well as the rendering of opinion regarding credit transactions, determination of credit rating, classification and allowances. Classification and allowances procedures are conducted at the Risk Management Division, under responsibility of the Chief Accounting Officer.

Third line of defense. The internal audit performs an independent audit of the handling of credit risks, sample examinations of credit files, credit granting approval processes and its management. In addition, it performs an examination as to whether work processes comply with Bank procedures and the credit policy documents, as well as performs cross-organization audits in matters of credit. It also examines the information systems supporting credit management and control, and performs examination of the risk management and quality of controls at subsidiaries that do not engage an independent internal auditor, and also examines the appropriateness of audits at subsidiaries that do engage an independent internal auditor.

Preparations by the Bank in the wake of the "Iron Swords" War – credit risk

As part of the Bank's arrangements for coping with the "Iron Swords" War, the Bank is keeping in regular contact with borrowers for the purpose of assisting them.

This situation requires increased alertness, risk assessment and quick response ability, and therefore the Bank has put into action a business continuity plan, and reports, controls and monitors with increased frequency, exposure of borrowers in all lines of business of the Bank, while following regulatory developments. Furthermore, the Bank applies stress tests as part of the strategy for the preparation and management of credit risk.

The Bank is prepared to assist its customers, in accordance with the outline published by the Bank of Israel, and to even go beyond this. See "Support of customers during the Iron Swords War period".

Credit Quality and Problematic Credit Risk

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

	Commercial	Housing	Private	Total
		In NIS millions		
		December 31, 2023		
Credit risk in Credit Granting Rating[1]				
Balance sheet credit risk	161,417	68,501	31,219	261,137
Off-balance sheet credit risk[3]	75,764	6,464	43,339	125,567
Total credit risk in Credit Granting Rating	**237,181**	**74,965**	**74,558**	**386,704**
Credit risk not in Credit Granting Rating:				
1. Not problematic	3,516	638	2,085	6,239
2. Accruing problematic	6,111	103	497	6,711
3. Problematic non-accruing	1,907	259	218	2,384
Total balance sheet credit risk	**11,534**	**1,000**	**2,800**	**15,334**
Off-balance sheet credit risk[3]	**2,765**	**49**	**907**	**3,721**
Total credit risk not in Credit Granting Rating	**14,299**	**1,049**	**3,707**	**19,055**
Of which: Accruing debts in arrears of 90 days or more	76	-	43	119
Total overall credit risk of the public[2]	**251,480**	**76,014**	**78,265**	**405,759**
Additional information concerning nonperforming assets:				
Non-accruing credit risk	1,938	259	218	2,415
		December 31, 2022		
Credit risk in Credit Granting Rating[1]				
Balance sheet credit risk	147,607	64,409	31,547	243,563
Off-balance sheet credit risk[3]	[5]68,907	8,293	[5]40,551	117,751
Total credit risk in Credit Granting Rating	**216,514**	**72,702**	**72,098**	**361,314**
Credit risk not in Credit Granting Rating:				
1. Not problematic	3,820	603	2,037	6,460
2. Accruing problematic	4,665	84	437	5,186
3. Problematic non-accruing	[4]1,211	229	81	[4]1,521
Total balance sheet credit risk	**9,696**	**916**	**2,555**	**13,167**
Off-balance sheet credit risk[3]	**1,375**	**56**	**303**	**1,734**
Total credit risk not in Credit Granting Rating	**11,071**	**972**	**2,858**	**14,901**
Of which: Accruing debts in arrears of 90 days or more	70	-	45	115
Total overall credit risk of the public[2]	**227,585**	**73,674**	**74,956**	**376,215**
Additional information concerning nonperforming assets:				
Non-accruing credit risk	[4]1,263	229	81	[4]1,573

Footnotes:

(1) 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.

(2) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts, bonds, securities borrowed or purchased under agreements to resell.

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

(4) December 31, 2022 - Including non-accruing corporate bonds in the amount of NIS 1 million.

(5) Reclassified following improvement of data.

Changes in non-accruing debts (for credit to the public only)

	2023				2022			
	Commercial	Housing Loans	Private	Total	Commercial	Housing Loans	Private	Total
	In NIS millions							
Movement in non-accruing debts (for credit to the public only)								
Balance of impaired debts at December 31, 2022	1,210	229	81	1,520				
Adjustment to non-accruing credit at January 1, 2023[1]	1	-	70	71				
Balance of non-accruing credit to the public at beginning of period	**1,211**	**229**	**151**	**1,591**	**1,184**	**275**	**72**	**1,531**
Credit classified as non-accruing during the period	1,509	160	360	2,029	1,080	118	236	1,434
Credit resuming accruing interest income	(93)	(90)	(50)	(233)	(442)	(99)	(20)	(561)
Credit written off accounting wise	(163)	(1)	(202)	(366)	(181)	(10)	(168)	(359)
Repaid credit	(551)	(39)	(41)	(631)	(442)	(55)	(39)	(536)
Other	(6)	-	-	(6)	11	-	-	11
Balance of non-accruing debts at end of the period	**1,907**	**259**	**218**	**2,384**	**1,210**	**229**	**81**	**1,520**
Of which: changes in restructured non-accruing credit								
Balance of restructured troubled debt as of December 31, 2022	450	4	42	496				
Adjustment to restructured non-accruing credit as of January 1, 2023[1]	(2)	-	21	19				
Balance of restructured non-accruing credit at beginning of period	**448**	**4**	**63**	**515**	**552**	**7**	**46**	**605**
Restructure of debts made during the period	394	2	69	465	390	3	51	444
Debts reclassified as non-impaired due to following restructure	(61)	(1)	(15)	(77)	(268)	(5)	(20)	(293)
Restructured debts written off	(33)	-	(18)	(51)	(22)	(1)	(14)	(37)
Restructured debts repaid	(223)	-	(32)	(255)	(201)	-	(21)	(222)
Other	1	-	-	1	(1)	-	-	(1)
Balance of restructured non-accruing credit at end of the period	**526**	**5**	**67**	**598**	**450**	**4**	**42**	**496**
Changes in allowances for credit losses on impaired debts:								
Balance of allowances for credit losses of December 31, 2022	205	13	30	248				
Adjustment to allowance for credit losses of January 1, 2023[1]	1	-	43	44				
Balance of allowance for credit losses as of the beginning of the year	**206**	**13**	**73**	**292**	**277**	**9**	**23**	**309**
Increase in allowances	446	8	256	710	247	17	119	383
Collection of debts and accounting write-offs	(282)	(8)	(207)	(497)	(319)	(13)	(112)	(444)
Balance of allowance for credit losses as of end of the period	**370**	**13**	**122**	**505**	**205**	**13**	**30**	**248**

Footnote:
(1) ICC initially implemented the US GAAP with respect to allowances for current expected credit losses (CECL) as from January 1, 2023, see Note 1 C (5) (1).

Indices of analysis of quality of credit to the public, expenses and allowance for credit losses

	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total
	December 31, 2023			
Quality analysis of credit to the public				
Ratio of non-accruing credit to balance of credit to the public	1.20%	0.37%	0.64%	0.91%
Ratio of non-accruing credit or which is in arrears for 90 days or over to balance of credit to the public	1.24%	0.37%	0.77%	0.95%
Ratio of problematic credit to balance of credit to the public	5.03%	0.52%	2.10%	3.46%
Ratio of credit risk that has no credit granting rating to balance of credit to the public	8.97%	1.51%	10.90%	7.25%
Expense analysis for credit losses for the reported period				
Ratio of credit loss expenses to the average balance of credit to the public	0.66%	0.11%	1.18%	0.59%
Ratio of net accounting write-off to the average balance of credit to the public	0.11%	-	0.75%	0.17%
Analysis of credit loss allowance for credit to the public				
Ratio of credit loss allowance to balance of credit to the public	1.86%	0.49%	2.68%	1.60%
Ratio of credit loss allowance to balance of non-accruing credit to the public	155.48%	130.50%	417.89%	176.76%
Ratio of credit loss allowance to balance of non-accruing or in arrears for 90 days or over credit to the public	149.52%	130.50%	349.04%	168.36%
Ratio of credit loss allowance to net accounting write-offs (in annualized terms)	16.85	112.67	3.50	9.60
	December 31, 2022			
Quality analysis of credit to the public				
Ratio of non-accruing credit to balance of credit to the public	0.84%	0.35%	0.24%	0.62%
Ratio of non-accruing credit or which is in arrears for 90 days or over to balance of credit to the public	0.88%	0.35%	0.37%	0.67%
Ratio of problematic credit to balance of credit to the public	4.05%	0.48%	1.52%	2.74%
Ratio of credit risk that has no credit granting rating to balance of credit to the public	7.64%	1.49%	8.38%	6.10%
Expense analysis for credit losses for the reported period				
Ratio of credit loss expenses to the average balance of credit to the public	0.13%	0.10%	0.49%	0.18%
Ratio of net accounting write-off to the average balance of credit to the public	0.09%	0.01%	0.35%	0.11%
Analysis of credit loss allowance for credit to the public				
Ratio of credit loss allowance to balance of credit to the public	1.53%	0.41%	2.14%	1.31%
Ratio of credit loss allowance to balance of non-accruing credit to the public	182.81%	116.16%	902.47%	211.12%
Ratio of credit loss allowance to balance of non-accruing or in arrears for 90 days or over credit to the public	172.81%	116.16%	580.16%	196.27%
Ratio of credit loss allowance to net accounting write-offs	16.89	53.20	6.36	12.78

Quarterly development in the balance of non-accruing assets and in certain rates

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions - End of period							
Non-accruing credit risk	2,415	2,241	2,185	1,523	1,573	(1)1,570	(1)1,863	(1)1,537
	In % - End of period							
Ratio of non-accruing credit or which is in arrears for 90 days or over to balance of credit to the public	0.95	0.89	0.89	0.63	0.67	(1)0.68	(1)0.81	(1)0.71
Ratio of credit loss allowance to balance of non-accruing or in arrears for 90 days or over credit to the public	168.36	172.47	156.42	210.52	196.27	(1)193.08	(1)159.42	(1)184.51

Footnote:
(1) The data in the above Table has been reclassified, following amendment of non-accruing credit in a subsidiary company.

Credit risk by economic sectors

Credit risk by economic sectors – consolidated

	December 31, 2023							
						Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which: Credit Performance Rating[4]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	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							
Industry	19,100	18,185	705	210	134	96	13	317
Construction and Real Estate - Construction'[6]	55,230	53,347	1,353	530	801	284	22	757
Construction and Real Estate - Real Estate Activity	17,461	16,982	320	159	221	79	21	404
Commerce	28,893	27,452	905	536	202	183	61	455
Financial Services[7]	31,365	31,235	110	20	110	62	(6)	163
Other Business Services	43,967	42,202	863	902	284	161	63	777
Total Commercial	**196,016**	**189,403**	**4,256**	**2,357**	**1,752**	**865**	**174**	**2,873**
Private Individuals - Housing Loans	75,549	74,506	362	681	259	84	3	352
Private Individuals - Other	75,972	72,448	637	2,887	218	407	260	996
Total Public	**347,537**	**336,357**	**5,255**	**5,925**	**2,229**	**1,356**	**437**	**4,221**
Banks in Israel and Government of Israel	44,400	44,400	-	-	-	1	1	(2)
Total Lending Activity in Israel	**391,937**	**380,757**	**5,255**	**5,925**	**2,229**	**1,357**	**438**	**4,219**
Total Public - Lending Activity Outside of Israel	**58,222**	**50,347**	**4,459**	**3,416**	**186**	**137**	**2**	**522**
Banks and Governments Outside of Israel	14,715	14,715	-	-	-	8	-	41
Total Lending Activity Outside of Israel	**72,937**	**65,062**	**4,459**	**3,416**	**186**	**145**	**2**	**563**
Total	**464,874**	**445,819**	**9,714**	**9,341**	**2,415**	**1,502**	**440**	**4,782**

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 273,270 million, NIS 57,265 million, NIS 851 million, NIS 2,065 million, NIS 131,423 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) Including for off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(4) 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.

(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 496 million.

(7) Including mortgage backed securities in the amount of NIS 7,453 million, issued by GNMA and in the amount of NIS 175 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 11,258 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 97 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.

Credit risk by economic sectors – consolidated (continued)

	December 31, 2022							
						Credit Losses[3]		
	Total Credit Risk[1][8][9][10]	Of Which: Credit Performance Rating[4][10]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	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							
Industry	17,150	16,350	489	311	176	31	58	256
Construction and Real Estate - Construction'[6]	49,160	47,713	1,219	228	278	153	24	493
Construction and Real Estate - Real Estate Activity	16,195	15,681	362	152	220	61	2	325
Commerce	27,091	26,073	490	528	119	(42)	9	316
Financial Services[7]	25,399	24,950	5	444	1	(4)	21	94
Other Business Services	40,994	38,934	1,143	917	340	60	46	679
Total Commercial	**175,989**	**169,701**	**3,708**	**2,580**	**1,134**	**259**	**160**	**2,163**
Private Individuals - Housing Loans	73,227	72,267	313	647	229	61	5	271
Private Individuals - Other	72,936	70,216	481	2,239	81	163	115	818
Total Public	**322,152**	**312,184**	**4,502**	**5,466**	**1,444**	**483**	**280**	**3,252**
Banks in Israel and Government of Israel	29,909	29,909	-	-	-	-	-	1
Total Lending Activity in Israel	**352,061**	**342,093**	**4,502**	**5,466**	**1,444**	**483**	**280**	**3,253**
Total Public - Lending Activity Outside of Israel	**54,063**	**49,130**	**2,714**	**2,219**	**129**	**(76)**	**(29)**	**379**
Banks and Governments Outside of Israel	13,282	13,282	-	-	-	-	-	30
Total Lending Activity Outside of Israel	**67,345**	**62,412**	**2,714**	**2,219**	**129**	**(76)**	**(29)**	**409**
Total	**419,406**	**404,505**	**7,216**	**7,685**	**1,573**	**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) Including for off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(4) 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.

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

(9) 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.

(10) Reclassified - following improvement of data.

Exposure to Foreign Countries - consolidated

	As of December 31					
	2023			2022		
	exposure			exposure		
The Country	balance sheet(2)(7)	Off-balance sheet(2)(3)(7)	Total	balance sheet(2)(7)	Off-balance sheet(2)(3)(7)	Total
	In NIS millions					
United States	20,943	11,708	32,651	18,431	9,748	28,179
Other	7,167	(5)11,003	18,170	6,191	(5)(8)9,876	16,067
Total exposure to foreign countries(1)	**28,110**	**22,711**	**50,821**	**24,622**	**19,624**	**44,246**
Of which - Total exposure to the PIGS countries(4)	24	171	195	9	(8)244	253
Of which - Total exposure to LDC countries(6)	416	136	552	413	162	575
Of which - Total exposure to countries having liquidity problems	17	35	52	31	13	44

Notes:
(1) Exposure to countries where the total amounts of exposure to each of them exceeds 1% of the total consolidated assets or more than 20% of the equity, whichever is lower. Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off-balance sheet credit risk, are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.
(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.
(4) Portugal, Italy, Greece and Spain.
(5) Including the transfer of credit risk to a consortium of international insurers, as of December 31 2023 in the following countries: Switzerland – an amount of NIS 3,102 million and Germany – an amount of NIS 3,207 million, and as of December 31 2022 in the following countries: Switzerland – an amount of NIS 2,993 million and Germany – an amount of NIS 2,920 million.
(6) The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.
(7) Balance sheet and off-balance sheet credit risk for derivative instruments is presented after credit risk mitigation.
(8) Reclassified – improvement of data.

Exposure to Russia and the Ukraine

Balance sheet and off-balance sheet credit risk. As of December 31, 2023, exposure to Russia and to the Ukraine is at a negligible scope (a mere few millions of NIS).
For additional details, see the 2022 Annual Report, p. 75.

Credit Exposure to Foreign Financial Institutions

General. Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities. As opposed to the definition of the "financial services" economic sector for the purpose of disclosure in the Management Review concerning the "Overall credit risk according to economic sectors", the exposure for foreign financial institutions presented in the table hereunder includes exposure to foreign banks and to foreign investment banks, which, on the one hand, are not included in credit to the public, and on the other hand, does not include exposure for investment in asset backed securities and for potential off-balance sheet exposure.
As a general rule, the credit risk policy of the Group allows exposure to banks from Tier 1 only and a low credit risk appetite in respect of regional and middle-sized banks (exposure of the Group to regional and middle-sized banks in the US, as of September 30, 2023, relates to four banks and amounts to a few million dollars).
The Bank maintains a careful credit policy and is monitoring developments and volume of exposure to key markets and to markets of the countries at risk. This is performed on an ongoing basis and at the Group level, within the framework of an inter-division forum. The Bank's dealing room monitors these markets in order to obtain a comprehensive picture and to react in real time to currency risks according to the risk profile of each customer and the approved credit facilities.

The manner of managing credit risk applying to foreign financial institutions. The Bank's policy with regard to various exposures to foreign banks and financial institutions, has been re-examined, and is reflected in the following items:

- The Bank has adopted a conservative policy as regards management of exposure to foreign banks and financial institutions;
- The allocation of credit facilities to foreign banks is strictly and conservatively conducted, using mathematical auxiliary tools that had been re-examined and which have recently been validated;
- Deposits by the Bank are made on a selective basis, mainly at banks in the U.S. and Britain, having a rating of "BBB+" at the least;
- Close management of the volume of foreign currency deposits abroad;
- The Bank has adopted a policy according to which exposure to financial derivatives requires a signed ISDA or CSA agreement with every financial institution with which the Bank enters into transactions of this kind;
- The clearing risks facilities are individually examined, with the clear aim of significantly reducing clearing risks, while using the CLS tool, being a central tool for mutual dual clearing;
- A policy has been adopted regarding exposure to less developed countries (LDC). This policy defines exposure at low amounts and for relatively short terms;
- A methodical and close management utilizing upgraded monitoring, supervision and control systems, and cooperation of all involved factors at the Bank and the Group;
- An information system that assists in obtaining a picture on a Collective basis regarding exposure to foreign banks and financial institutions.

With respect to the management of exposure to foreign financial institutions, it should be noted that:

- A reduction in the rating of a foreign bank, change in market data and/or deterioration in its financial data are weighted into the model, and where necessary, the Bank reduces its credit facility accordingly;
- The financial institutions unit of the Financial Markets Division allocates the credit facilities approved by the Board between members of the Group, and the various units at the Bank, including the Bank's dealing room for which the Financial Markets Division is responsible.

The Bank maintains a careful credit policy and is monitoring developments and volume of exposure to key markets and to markets of the countries at risk. This is performed on an ongoing basis and at the Group level, within the framework of an inter-division forum. The Bank's dealing room monitors these markets in order to obtain a comprehensive picture and to react in real time to currency risks according to the risk profile of each customer and the approved credit facilities.

It should be noted that, as part of the policy update, the effectiveness of risk management processes was examined in 2023, and within this framework, some of the internal limits were updated. In 2023, there was an increase in risk indices of financial institutions around the world, in line with the rise in interest rates and market volatility, and accordingly, there was an increase in banks' CDS rates. During the year, three banks collapsed in the United States, and following concerns of development of the crisis to a large bank in Switzerland, the local government initiated a rapid process for its acquisition by another bank. It should be noted that the Bank's exposure to these banks is immaterial.

As seen from the data presented above regarding "Exposure to foreign countries", the Bank's direct exposure to countries at risk is not material.

Credit exposure to foreign financial institutions. The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, approx. 98% of the exposure as of December 31, 2023, is to financial institutions rated "A-"rating or higher.

The states for which the Bank has exposure as stated above as of December 31, 2023, include, inter-alia the United States and Great Britain.

As of December 31, 2023, exposure to Russia and to the Ukraine is at a negligible scope (a mere few millions of NIS).

In 2023, impairment of securities was not made with respect to the exposure to financial institutions.

Present credit exposure to foreign financial institutions, on a consolidated basis

	Balance sheet credit risk(2)(4)(5)	Present off balance sheet credit risk(3)(4)	Present credit exposure(4)
	In NIS millions		
	As of December 31, 2023		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	1,022	9	1,031
A+ to A-	4,827	444	5,271
BBB+ to BBB-	27	6	33
BB+ to B-	2	35	37
Not rated	10	26	36
Total present credit exposure to foreign financial institutions	**5,888**	**520**	**6,408**
	As of December 31, 2022		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	771	20	791
A+ to A-	3,196	470	3,666
BBB+ to BBB-	28	5	33
BB+ to B-	2	20	22
Not rated	2	25	27
Total present credit exposure to foreign financial institutions	**3,999**	**540**	**4,539**

Notes:
(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.
(2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under agreements to resell and other Balance sheet credit risk for derivative instrument.
(3) Mainly guarantees, including guarantees securing third party indebtedness.
(4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.
(5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 28 to the financial statements.
(6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 12 to the financial statements).
(7) According to Moody's rating, and in its absence, the Fitch rating or S&P.

In addition to the exposure presented in the above table, as of December 31, 2023 and December 31, 2022 a potential off-balance sheet exposure exists for derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 1,651 million and NIS 1,479 million, respectively.

Credit Risk in Housing Loans

General. The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB Bank (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB Bank are negligible (housing credit in the amount of NIS 347 million as of December 31, 2023 and NIS 336 million as of December 31, 2022).

Developments in the field of housing loans. A growth was recorded in recent years in the demand and in the volume housing loans granted. The growth in performance has been caused by both the increased demand in the residential market and the rise in prices, resulting from the shortage in the supply in residential units in relation to the said demand.

Since the second half of 2022, there has been a decrease in the execution of housing loans at the Bank and for the whole system. This downturn also continued in 2023, in direct line with the trend of rising interest rates in the economy. Along with the slowdown in the housing market, the decline in the scope of executing housing loans continued and a decline in the comprehensive residential units price Index was observed in recent months, as well as moderation in the rate of increase in prices of residential units, in annual terms. Due to the "Iron Swords" War, a significant slowdown in the real estate market is expected and, in light of the Bank of Israel's outline, a significant increase in the freezing of mortgages is expected.

Measures taken by the Group. The credit policy defines the criteria required for ensuring the quality of credit and reducing the risks derived there from, including the rules for examination of the repayment ability of borrowers and guarantors for the debt, the hierarchy of authority, classes of collateral securing the credit, the pricing of credit as well as the principles of management, monitoring and control over the credit and collateral. Limits and restrictions have also been determined with respect to the repayment ratio, the financing rate, the rating of the transaction, mix of the credit portfolio, bridging loans, and geographical distribution. Furthermore, cross limits have been determined for a part of the said parameters.

In addition, the following actions are taken:

- The Group conducts credit quality control prior to the granting of the credit, by means of a back-office layout, which includes credit underwriting unit, legal underwriting and an examination unit. Mortgage loans having a high risk profile are approved by means of a specialized approval center;
- The use of "safety factors" (durability tests) in the loan approval process. Prior to approval of the loan facility, the Group studies possible implications that might arise from theoretical changes in market variables (principally, an increase of 2-3 basis points in the annual interest rate in loans bearing variable interest rates) on the repayment ability of the borrower.
- Determination of exposure policy for special segments: acquisition groups, foreign residents, all-purpose loans, etc. In loans financing the purchase of luxury properties, the Bank applies a stringent scale of authority;
- Current use of theoretical scenarios, including stress tests, for the sensitivity analysis of anticipated changes in the Bank's exposure to credit risk, as a derivative of changes in the tested parameters;
- Conducting the monitoring of key risk indicators (KRI's), and additional parameters including, in the case of developments in the housing market, the employment market and the volume of arrears concerning loans granted by the Bank and by the banking industry;
- Entering into specific arrangements with borrowers who meet difficulties in honoring the periodic repayment terms of the original loans;
- Updating credit application rating model for mortgages;
- Use of computerized tools in order to mitigate credit risks and mitigate operational risks.

The volume of the Group's housing loan portfolio as of December 31, 2023, amounted to NIS 69,598 million (December 31, 2022 - NIS 65,543 million).

Certain risk characteristics of the Group's housing loans portfolio

	December 31,	
	2023	2022
	%	
Rate of housing loans financing over 75% of the value of the property	0.6	0.8
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	14.7	12.4
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio(1)	57.9	58.7

Footnote:

(1) Loans in which the interest rate change frequency exceeds five years were also included in computing the ratio.

Amount of loans and average financing ratios

	December 31,	
	2023	2022
Average amount of loan (in NIS thousands)	952	993
Average financing ratio for housing loans (in %)	54.4	56.7
Average financing ratio for general purpose loans (in %)	24.4	30.3

Division of housing credit balances according to size of credit to borrowers

	December 31,			
	2023		2022	
Credit limit net[1][2] (in NIS thousands)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 1,200	43,907	63.4	42,342	64.9
Between 1,200 and 4,000	23,816	34.4	21,554	33.0
Over 4,000	1,535	2.2	1,379	2.1
Total	**69,258**	**100.0**	**65,275**	**100.0**
Of which:				
Housing loans that were granted abroad	342		323	

Footnotes:
(1) The balance of credit is after deduction of allowance for credit losses in the amount of NIS 340 million (31.12.2022: NIS 268 million).
(2) The outstanding balance of credit to the public includes housing loans in the amount of NIS 97 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2022:NIS 218 million).

Volume of problematic debts in housing loans

		Balance of problematic credit				
	Balance of credit to the public[1][2]	Accruing	Non-accruing	Total	Balance of allowances for credit losses	Ratio of problematic debt
December 31	In NIS millions					Change in %
2023	69,598	103	259	362	340	0.5
2022	65,543	84	229	313	268	0.5

Footnotes:
(1) Recorded amount.
(2) The outstanding balance of credit to the public includes housing loans in the amount of NIS 97 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2022:NIS 218 million).

Distribution of housing credit granted, according to financing ratios and as a ratio of credit granted

	2023		2022	
Loan to value (LTV) ratio[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	3,266	33.7	4,493	25.3
Between 45% and 60%	2,632	27.1	5,800	32.6
Over 60%	3,799	39.2	7,472	42.1
Total	**9,697**	**100.0**	**17,765**	**100.0**

Footnote:
(1) The loan to value (LTV) ratio is computed for the purchased asset and does not include additional collateral, if granted.

The average loan period of housing loans at the Bank (standalone) in 2023, was 24.5 years, similar to 23.9 years in the industry. The amount of credit for a period of over twenty years amounted to 57% of the whole credit portfolio of housing loans at the Bank.
The data regarding the distribution of extended credit as of December 31, 2023, by period of loan shows that the granting of loans at the Bank in 2023 for periods of over twenty years reached a rate of 76% of all credit granted.

Developments in housing credit balances according to linkage segments

	Non-linked credit			CPI linked credit			credit			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
December 31	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	Total Housing Credit (1)(2)
2023	21,938	27,932	72.0	6,930	12,363	27.9	26	69	0.1	69,258
2022	20,996	26,822	73.2	5,756	11,596	26.6	24	81	0.2	65,275

Footnotes:

(1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 97 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2022: NIS 218 million).

(2) The balance of credit is after deduction of allowance for credit losses of NIS 340 million (December 31,2022: NIS 268 million).

Most of the loans are granted for an initial period of up to 25 years. The average period of the loan at the Bank is slightly higher than that of the industry.
The outstanding balance as of December 31, 2023 of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 12,562 million, comprising 18.1% of the total housing loans portfolio (as of December 31, 2022, the balance amounted to NIS 9,527 million, comprising 14.6% of the total housing loans portfolio).

Composition of loans granted for housing purposes, divided by the ratio of repayments to earnings

	2023		2022	
Ratio of payment to income (PTI)(1)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	8,667	99.9	16,713	99.4
Over 40%	12	0.1	100	0.6
Total	**8,679**	**100.0**	**16,813**	**100.0**

Footnote:

(1) The amount of loans granted do not include loans secured by a mortgage on a residential unit, balloon loans and bullet loans.

According to the directives, the repayment ratio is restricted to 50%. The capital allocation required for loans with a repayment ratio in excess of 40% stands at 100%, with this not being connected to the requested financing rate. Against the background of these requirements, the granting of housing loans at the Bank at a rate in excess of 40% is negligible.

Credit Risk of Private Individuals (excluding Housing Credit Risk)

General. The data presented in his item comprise data of operation in Israel, excluding housing loans, and they include the Bank and MDB. Certain data relating to credit to private individuals at ICC is presented separately hereunder, according to available data of ICC.
Definitions. Following are the definitions used in the preparation of this report:
"Amount of income per account" – average income of a recurring pattern from salaries, annuities, transfers and deposits, after elimination of exceptional amounts.
"Balance-Sheet credit upper limit" – according to the reporting to the Supervisor of Banks under Reporting to the Supervisor of Banks Directive No. 836 – current account balances, credit cards and loans. Excluding non-utilized facilities of current account and credit cards.
"Financial assets portfolio" – the financial assets portfolio related to the account of the customer: financial deposits (including current account balance), securities portfolio and other financial assets.

Development in balances

Distribution by customer's fixed income and by financial assets portfolio related to the account

	Balance Sheet Credit Risk				
	Financial assets portfolio				
	Less than NIS 50 thousand	Greater than NIS 50 thousand	Total balance credit risk	Total off-balance credit risk	Total credit risk
	Balance in NIS million				
	December 31, 2023				
Level of income to the account					
Excluding permanent income to the account	869	67	936	555	1,491
Less than NIS 10 thousand	3,355	626	3,981	2,987	6,968
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,446	1,417	5,863	3,887	9,750
Greater than NIS 20 thousand	4,657	2,917	7,574	6,422	13,996
Total	**13,327**	**5,027**	**18,354**	**13,851**	**32,205**
	December 31, 2022				
Level of income to the account					
Excluding permanent income to the account	1,046	103	1,149	574	1,723
Less than NIS 10 thousand	3,904	838	4,742	3,300	8,042
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,312	1,637	5,949	3,771	9,720
Greater than NIS 20 thousand	4,108	3,018	7,126	5,616	12,742
Total	**13,370**	**5,596**	**18,966**	**13,260**	**32,226**

Additional quantitative characteristics

Distribution by the average remaining period to maturity

	December 31,	
	2023	2022
Fixed maturity date	Balance of loans in NIS millions	
Up to 1 year	1,263	1,277
Over 1 year and up to 3 years	4,572	4,748
Over 3 years and up to 5 years	3,466	3,984
Over 5 years	3,095	2,996
Total	**12,396**	**13,005**

It is noted that the above Table presents the distribution relating only to loans, while the remaining Tables present distribution relating to the maximum balance-sheet credit, which includes also current account balances and credit cards.

Distribution by size of credit to the borrower

	December 31,	
	2023	2022
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	4,835	5,132
Between 40 and 150	8,926	9,563
Over 150	4,593	4,271
Total	**18,354**	**18,966**

Distribution by exposure to changes in interest rates

	December 31,	
	2023	2022[1]
	in NIS million	
Fixed interest credit	4,131	4,200
Variable interest credit	14,223	14,766
Total	**18,354**	**18,966**

Footnote:
(1)Reclassified - following improvement of data.

Distribution of collateral securing the credit

	December 31,	
	2023	2022
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	856	1,047
Other collateral	738	1,050
Total	**1,594**	**2,097**

Development of problematic credit risk for private individuals

				Rate from total balance-sheet to credit to the public	
	December 31,			December 31,	
	2023	2022	Change in	2023	2022
	in NIS million		%	%	
Problematic credit risk	170	179	(5.2)	0.9	0.9
Of which: Non-accruing credit risk	41	39	6.3	0.2	0.2
Debts in arrears of 90 days or more	43	45	(4.4)	0.2	0.2
Net accounting write-offs	57	14	309.8	0.3	0.1
Balance of allowance for credit losses	522	459	13.6	2.8	2.4

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles (in the Bank, MDB and ICC), pledged, amounted to NIS 1,109 million at December 31, 2023, compared with NIS 1,491 million as of December 31, 2022, a decrease of 25.6%.

Additional details

Background

Credit products. The credit activity in this field is conducted in three principal channels: current account credit facilities, credit card facilities and loans. The loans comprise the major part of consumer credit balances, and are usually granted in amounts of less than NIS 50 thousand and for short and medium periods (mostly up to 5-8 years). The market share of loan operations conducted outside the branch premises, with an emphasis on the digital channels, rises gradually year by year and constitutes a central layer of the total consumer credit activity.

Credit underwriting. Over the years, the Bank has developed advanced models for the assessment of risk relating to a customer seeking credit. The underwriting processes for consumer credit at the Bank are accompanied by wide use of the model products and are conducted according to the Bank's credit policy, carefully modifying the product to the needs of the customer.

Credit underwriting at the branches is comprised of two layers: the one – underwriting under authority, performed at the discretion of an authorized factor using indications and products of models as to the risk rating of the customer, his repayment ability, as well as additional indications required according to the customer's risk and the amount of the loan. The other – automatic underwriting, being performed generally in the case of loans in relatively small amounts and according to the recommendation of the model, which takes into consideration the risk level of the customer, his repayment ability and the past experience of the Bank with the borrower. The Bank combines in both layers the information in the credit data report of the customer from the Bank of Israel data base in considering the extension of credit, everything according to the provisions of the law regarding use of information.

Development of the Risk

Starting with the previous decade, the credit granted to households doubled its ratio in the credit portfolios of the five large banking groups. Most of the growth in credit to households in Israel stems from housing loans (about two thirds of credit granted to households). At the same time, the credit to households granted by off-banking entities continued to grow, though its share is still low in relation to banking credit.
The continuation of the slowdown trend in the economy in 2023, as well as the reduction in volume of tax collection contributed to a higher evaluation of the credit risk. In view of the rising inflation and interest rate and the anticipated slowdown in economic activity in the market, a rise in credit risk is expected. The main reason for such a rise is a heavier burden of debt imposed on borrowers as a result of higher interest and inflation.
It is noted that the development of the risk is directly connected to additional economic indices, in particular, the growth rate, employment and private consumption. Developments in such indices in the coming period have a material impact upon the credit risk level.
As part of the Bank's preparations for dealing with the consequences of the "Iron Swords" War, the Bank is performing heightened monitoring to identify signs of distress among retail borrowers. The monitoring is performed both at the micro level – specific identification of borrowers in difficulties, and also at the macro level – identifying trends and changes in the credit portfolio and the credit risk.
At date of publication of this Report, indicators reflecting a material change in credit risk relating to the households portfolio as a result of the effects of the War, have not yet been identified. However, this is probably, a derivative of the effect of the support that had been granted to customers and of the Dates Deferment Law. For details on support of customers, see "Support of customers during the "Iron Swords" War period".

Risk Mitigating Measures

Determining underwriting thresholds. Within the framework of determining the risk appetite, underwriting thresholds have been set, which reflect the maximum level of risk in which new consumer credit may be provided. Deviation from these rules is possible only in exceptional cases and in limited amounts, while ascending the authorization scale.
Models and analytical tools. The process of determining the consumer credit risk at the Bank is accompanied by statistical models, which calculate the credit risk assessments (LGD and PD) that forecast the customer's risk level and the marginal transaction. The models are based upon variables referring to the characteristics of the customer, his repayment ability, financial stability and his banking past. The models are being updated from time to time according to market changes, state of the borrowers and additional factors.
Effective measurement. All business units at the Bank are being measured on a current basis by the quality of the consumer credit portfolio under their responsibility, and by their adherence to the underwriting rules. All functions related to credit underwriting have defined indices, the aim of which is maintaining the quality of the portfolio and the wide distribution of credit to the extent possible.
Use of information obtained from the credit data base. Credit underwriting if performed using information obtained from the data base, subject to minimum levels of materiality, as defined by the Bank and to limitations set by law.

The Fairness Principle

According to guidelines of the Supervisor of Banks, criteria for the initiation and marketing of credit to the private individual customer population were defined, in respect thereof the Bank is permitted to initiate offers for the granting of credit. The rules are based upon the risk level of the customer as well as on the advisability of accepting the loan on the part of the customer.
The approach to the customer is made according to conversation scenarios that include proper disclosure of the loan terms, needs of the customer and his characteristics as well as mention of the assets and liabilities stated in the customer's account.
It is noted that the fairness principle as regards the customer, has been defined both as part of the risk appetite of the Discount Group and as part of the credit underwriting policy regarding private customers.
The principle of fairness and decency as regards debtors is being applied both while they are being handled under the responsibility of the managing branch as well as after passing them on for legal proceedings by the law offices engaged by the Bank. The guideline is to try and reach an arrangement with each debtor in default, which meets his capabilities and his repayment ability.
The Bank implements the requirements of the Fair Credit Law. For details regarding this Law, see the 2020 Annual Report (pp. 396-397).

Monitoring and Control

The Bank performs on a current basis, control over the quality of underwriting, adherence to policy rules and proper disclosure rules. Control is performed by means of compliance officers in the business units, credit controllers and the internal audit.
Current monitoring is also performed with respect to the quality of the consumer credit portfolio at the Bank.

For details regarding loans to private individuals portfolio (excluding housing loans), see the risks report.

Quantitative data regarding credit granted to private individuals in ICC

A rise at the rate of 10.1% was recorded in 2023 in the balance of interest bearing credit granted to private individuals, in continuation of a rise of 21.9% in 2022. This credit amounted as of December 31, 2023, to NIS 7,741 million, compared with NIS 7,034 million as of December 31, 2022, and comprises 63.1% of total credit to private individuals at the responsibility of ICC, most of which is credit carrying variable interest rates regarding credit transactions, revolving credit card transactions, loans, designated credit for the purchase of vehicles and other transactions. The remaining credit to private individuals amounted to NIS 4,529 million, as compared to NIS 4,726 million as of December 31, 2022 (a decrease of approx. 4.2%), reflecting balances of regular transactions, installment transaction on account of the trading house and other transactions. The major part of credit losses stems from interest bearing credit.
Credit losses for private individuals amounted in 2023 to NIS 285 million, compared to NIS 93 million in 2022. The growth in credit loss expenses stems mostly from a decrease in the collective allowance for credit losses in prior periods, from growth in scope of accounting write-offs, from growth in the credit portfolio, from allowances made due to the "Iron Swords" War and from the macro-economic condition in Israel.

Credit risk in relation to the Construction and Real Estate Sector

The construction and real estate sectors are a central component in the Bank's credit portfolio, and most of the credit to these sectors is managed by the Real Estate Subdivision in the Corporate Division, which possesses a high level of expertise and considerable experience in this field.
With the outbreak of the "Iron Swords" War, there was a marked slowdown in the progress of construction at building sites, and the sale of the new apartments reached a low. The war has major potential to have a negative impact on the financial situation of real estate developers, with an emphasis on borrowers who have experienced an increase in their leverage level due to the increases in the interest rate since April 2022. The decrease in activity scopes in the economy may also harm commercial real estate performance, as a result of reliefs granted to tenants.
The Bank is following the exposure and is closely monitoring the exposure and the effects of the war and the macro conditions, including the interest rate level, on the financial strength of borrowers and on property prices.
The Bank operates subject to the regulatory limitation and according to mitigating instructions determined by the Supervisor of Banks, within the framework of the Provisional Instruction, in order to enable confronting the Corona crisis, according to which banks may increase the volume of credit extended to the construction and real estate sector, so that the rate of credit in this sector shall not exceed 26% of total credit, and after deduction of indebtedness of national infrastructure projects, shall not exceed 22%. The banks would be required to revert to a rate of 20% during a period of twenty-four months as from December 31, 2025, on condition that the rate of indebtedness during the said two years would not exceed the rate at December 31, 2025. The Bank conforms to the said limits and also to internal limits serving as alert levels. In addition, the Bank operates according to a series of relief measures published by the Supervisor of Banks since the outbreak of the War.
The credit policy for the sector focuses on financing activities in Israel, while giving priority to long-established borrowers having a high level of financial strength, with whom the Bank has positive business experience. The financing of entrepreneur residential construction projects and income generating real-estate projects is conducted by the closed loan method, under minimum requirements, including equity capital, minimal estimated profitability, compliance with stress tests (inter alia, price reduction scenarios), price reduction absorption ability, early sales and more – for a fuller explanation, see the "Construction and Real Estate Activity" under "Additional Details Regarding the Business of the Banking Corporation and Management Thereof" chapter.
In 2023, there was a significant slowdown in the construction and real estate sector, while the trend that began in the second quarter of the year intensified. The Bank operates with a focus on financing residential building projects and on financing the purchase of land. The Bank monitors and closely follows the growth in exposure, inter alia, for new transactions having increased risk (see below), and where required, the Bank has made adjustments to the collective allowance.
The Bank purchases insurance policies in respect of credit risk involved in bank guarantees issued under the Sales Law, execution guarantees and loans financing the purchase of land. Within the framework of such policies, the Bank transfers a share of the credit risk to an international consortium of reinsurers. In accordance with Proper Conduct of Banking Business Directive No. 203, the international rating of the reinsurers allows the Bank the replacement of counterparty risk, thus reducing up to 80% of the required capital allocation in respect of the insured assets. As of December 31, 2023, a total of approx. NIS 29.5 billion of exposure to the real estate sector, including commitments to extend credit, is insured under the said insurance policies.
The rate of exposure to credit in the construction and real estate sector stood at approx. 17.92% as of December 31, 2023, compared with 17.03% at the end of 2022.

Reinforcement of monitoring and control procedures and expansion of disclosure regarding credit to the construction and real estate sector

The Supervisor of Banks issued on August 19, 2021, a letter in the matter of "Growth in credit risk pertaining to the construction and real estate sector", on the background of the significant growth that had taken place at the banking system during the first half of the year with respect to business credit balances in general and in credit balances to the construction and real estate sector in particular, as well as in view of the increase in competition and the growing risk appetite, and in consequence thereof, an increase in credit risk. The letter requires banking corporations to reinforce their monitoring and control procedures as regards the development of risks, especially with respect to new credit transactions. Within the framework of monitoring and control, as stated, banking corporations are required to determine criteria for credit underwriting defined by them as "increased risk" credit (on the basis of parameters stated in an Annex to the letter). Moreover, banking corporations are required to adjust the computation of the collective allowance for credit losses following the fast growth of the credit portfolio and the relaxation in underwriting conditions.

In continuation to that stated above, and on the background of the growth in risks pertaining to the construction and real estate sector, banks were required by the Supervisor of Banks, on October 11, 2021, to expand, as from the report for the third quarter of 2021, the quantitative and qualitative disclosure regarding the construction and real estate sector presented in their Boards of Directors and Managements' reports, and accordingly, a Table was added detailing credit exposure and data regarding credit rated for granting and credit not rated for granting. In a further letter from the Banking Supervision Department, dated December 30, 2021, the banking corporations were required to make an adjustment to the collective allowance in the 2021 financial statements in view of the rise in the risk and the level of exposure to the construction and real estate sector, as well as expanding the disclosure on this topic.

An Amendment to Proper Conduct of Banking Business Directive No. 203, was published on May 22, 2022, in the matter of the standardised approach to the measurement of credit risk and capital adequacy, according to which the list of debts averaged at the rate of 150% risk would include loans intended to finance the purchase of land for development or building purposes at a rate exceeding 80% of the value of the purchased property, excluding loans financing the purchase of agricultural land having no planning horizon or intention to file a request for a change in zoning, and loans financing the purchase of land for the personal use of a borrower who is not classified to the construction and real estate sector. The Amendment takes effect on June 30, 2022, though the effect of the existing amount of loans on the capital adequacy ratio was allowed to be spread at fixed quarterly installments until June 30, 2023 (beginning with the third quarter of 2022).

A detailed analysis of transactions made at Discount Bank in the course of 2023 points at a decline in the volume of new credit that agrees with the criteria of increased risk.

During the reported period, MDB extended an insignificant amount of credit to the construction and real estate sectors, which matches the definition of increased risk credit, according to parameters defined by this bank. As of December 31, 2023, MDB has an outstanding balance of credit extended to the construction and real estate sectors of NIS 301 million, answering to the definition of "intensified credit risk for the purchase of land", compared with NIS 363 million as of December 31, 2022.

The data presented hereunder relate to operations conducted in Israel (operations by Discount Bank and by MDB).

Development of credit risk relating to the construction and real estate by principal characteristics

Distribution of credit risk and problematic debts in the construction and real estate sector

	December 31, 2023					December 31, 2022					
Sector	Balance sheet credit risk	Guarantees	Unutilized facilities	Total overall Credit Risk	Of which: problematic credit risk	Balance sheet credit risk	Guarantees	Unutilized facilities	Total Credit Risk	Of which: problematic credit risk	Change in credit risk
	in NIS million										%
Income generating real estate	14,261	193	1,938	16,392	295	(1)13,179	241	(1)1,473	14,893	328	10.1
Construction – general building contracting	1,139	283	780	2,202	41	739	835	352	1,926	39	14.3
Residential projects financing	7,922	5,749	12,715	26,386	124	5,310	6,655	11,724	23,689	139	11.4
Acquisition of building land	13,900	468	778	15,146	987	(1)12,883	356	(1)172	13,411	859	12.9
Subcontracting	1,599	1,441	722	3,762	82	1,519	1,159	607	3,285	99	14.5
Civil engineering work	2,004	2,934	933	5,871	79	1,855	2,329	1,067	5,251	43	11.8
Other	1,791	482	656	2,929	65	1,462	550	682	2,694	(1)74	8.7
Total	**42,616**	**11,550**	**18,522**	**72,688**	**1,673**	**(1)36,947**	**12,125**	**(1)16,077**	**65,149**	**(1)1,581**	**11.6**

Footnote:
(1) Reclassified – following improvement of data.

The total credit risk relating to the construction and real estate sector grew in 2023 by 11.6%, in continuation to an increase at a rate of 13.5% in 2022. As shown in the table above, most of the growth is in the residential projects financing, acquisition of building land and income generating real estate.

Breakdown by quality of credit portfolio

	December 31,		
	2023	2022	
	in NIS million		Change in %
Non-accruing credit risk	1,022	496	106.0
Credit risk of Impaired debts in Arrears of 90 Days or More	14	12	16.7
Other problematic credit risk	637	(1)1,073	(40.6)
Total problematic credit risk debts	**1,673**	**1,581**	**5.8**
Credit risk of non-problematic debts ranked as "for-granting"	70,326	(1)63,188	11.3
Credit risk of non-problematic debts not ranked as "for-granting"	689	(1)380	81.2
Total overall credit risk	**72,688**	**65,149**	**11.6**

Footnote:
(1) Reclassified – following improvement of data.

As shown by the Table, the credit risk for non-accruing credit for the construction and real estate sector increased in 2023 by approx. 106.0%, as a result of the worsening of the classification of certain borrowers. Other problematic credit risk decreased by 40.6% and credit risk which is not at credit rated for granting increased by approx. 81.2%.

For details regarding the purchase of a policy to insure against credit risk related to Sale Law guarantees and performance guarantees and with respect to the purchase of credit risk insurance in the real estate field, see the risks report.

Breakdown by type of financing

	December 31,		
	2023	2022	
	in NIS million		Change in %
Housing construction	39,741	38,389	3.5
Industrial and commercial construction	17,678	12,460	41.9
Without real estate collateral	15,269	14,300	6.8
Total	**72,688**	**65,149**	**11.6**

Breakdown by type of collateral

	December 31,		
	2023	2022	
	in NIS million		Change in %
"Gross" land	15,072	13,294	13.4
Real estate under construction	26,655	22,175	20.2
Constructed real estate	15,692	15,380	2.0
Without real estate collateral	15,269	14,300	6.8
Total	**72,688**	**65,149**	**11.6**

Credit risk for Leveraged Finance

Definition of leveraged finance. Defined as credit for the finance of capital transactions by corporations, granted at a high financing ratio and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations. According to Proper Conduct of Banking Business Directive No. 327 the definition of leveraged loans has been set, and it includes, among other things, transactions for the acquisition of another corporation, purchase of own shares and the distribution of capital.

Credit risk for leveraged finance. The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.

Proper Conduct of Banking Business Directives determined restrictions regarding the finance of capital transactions, which the Bank abides by.

Following are data regarding credit risk pertaining to leveraged finance as of December 31, 2023. The disclosure is focused on exposure leverage transactions, each of which exceeds the threshold set in the Bank's policy and subject to Proper Conduct of Banking Business Directives.

The Bank's exposure to leveraged finance according to economic sectors of the acquired corporation

	December 31, 2023				December 31, 2022			
	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses
Sector	In NIS millions							
Construction and real estate	541	391	932	-	1,041	181	1,222	-
Commerce	-	-	-	-	181	-	181	-
Public and Community Services	239	5	244	-	258	5	263	-
Total	**780**	**396**	**1,176**	**-**	**1,480**	**186**	**1,666**	**-**

Exposure to leveraged finance as of December 31, 2023 amounted to NIS 780 million, compared to NIS 1,480 million at December 31, 2022, a decrease of 47.3%. The off-balance sheet exposure for leverage finance transactions as of December 31, 2023, amounted to NIS 396 million (December 31, 2022 – NIS 186 million).

The balance of exposure presented in the table above, is after accounting write-offs.

For additional details, see "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information on risks", which is available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Additional disclosure regarding credit risk for significant exposure to borrower groups

As at December 31, 2023, there is no borrower group whose indebtedness exceeds 15% of the capital, as defined in the Directive.

Market Risks

Market risk is the risk of impairment in the value of the Group and its ability to attain its goals, as a result of changes in economic parameters in the financial markets and their fluctuations, which affect both its economic value and the regulatory capital ratio.
- **Interest risk.** The risk of impairment, as stated, as a result of parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.
- **Inflation and exchange rate risk.** The risk of impairment, as stated, as a result of the impact of changes in inflation rate or in exchange rates, including the effect of derivatives and future transactions on the difference between the assets and liabilities.
- **Share prices risk and credit margin in the holding of securities risk.** The risk of impairment, as stated, as a result of erosion in value of securities having a credit risk and in the value of non-financial assets, including funds, due to price fluctuations.

Market risks are presented in this review on a Collective basis that includes the Bank, Mercantile Discount Bank, IDB Bank, ICC and the severance pay fund for the Bank's employees (hereafter in this section: "the Group"). Other Group companies do not have any material market risk.

Effects of the Iron Swords War. Following the outbreak of the war, there has been considerable volatility in the interest rate curves in Israel. As of the date of publishing the financial statements, the expectations inherent in the interest rate market embody a faster decline than that embodied in the markets as of the date of the financial statements. Regarding the effect of a decrease in the interest rate on the Bank's financing income, see "The impact of scenarios of changes in interest rates on net interest income and on non-interest financing income", below.

Strategy and Policy

The policy document for market risk management constitutes a framework for the management of the market risks at the Bank and the Group and defines the responsibility and authority of the parties involved in the processes for managing the market risks that the Group accepts.

Management of the risk is intended to minimize, as much as possible, the materialization of unexpected risks and harm stemming from the uncontrolled acceptance of risk.

The policy and the principles in the policy document are on a Collective basis, with each of the subsidiaries, on an individual basis, adapting the policy to its own administrative structure, to local regulations and to its business environment. The risks are managed from an overall Group standpoint and within a framework of mandatory professional guidance.

As part of the updating of the market risk management policy, the effectiveness of limitations applying to market risk at the Bank and at the Group is reviewed, including in the trading portfolio, intactness of the exposure population is being examined, while identifying vulnerable areas, and comparison is being made with principal risk indices in relation to the system.

Risk Appetite

The appetite for market risks, as defined in the policy, reflects the willingness of the Bank and the subsidiaries in the Group to accept market risks for the purpose of achieving their strategic goals. The fundamental concept in managing the risk is that the balance sheet will be managed with the aim of maximizing the economic capital from a long-term perspective, given the risk appetite and subject to accounting considerations and to considerations affecting the capital planning.

The policy defines the quantitative and qualitative limitations in relation to the characteristics of the market risks exposure at the Group companies and in the markets and instruments in which they are active through the banking portfolio and the trading portfolio.

The risk appetite is determined taking into consideration the two measurement approaches – accounting and economic, as well as the various management tools – sensitivity analyses, accounting scenario of an ordinary business situation (capital scenario), historical VAR model and stress tests, while taking into consideration different time spans – short-term and long-term.

In order to effectively manage and analyze the exposures and to display a concise picture to the decision makers, two categories of risk indices have been defined – primary risk indices, which serve the first line of defense in taking ongoing or periodic decisions regarding exposure scopes, and the additional risk indices, which are the remaining risk indices, that complete and set out the risk picture, in respect to some of which the Board of Directors has set limits, in respect to some, limits are set at division head level, and there are also risk indices which are only subject to monitoring without any limits being set.

The Bank and the subsidiaries manage and monitor compliance with the limits for both the primary risk indices and also for the additional risk indices. Details regarding the scope of the exposures and the limits set will be presented below within the framework of the quantitative disclosure.

Structure and Processes

The market risk management policy defines an organizational structure for managing the risks, which ensures a proper balance and non-dependence among the parties involved in managing the risks. Three lines of defense are defined in relation to the market risks, for the purpose of ensuring this balance, as follows:

First line of defense. The collective Group management of interest, is being conducted by means of Global Treasury at the Financial Markets Division. The Group investment risk management is conducted by the investments unit at the Financial Markets Division. The Group management refers to all market risk acceptors at the Group including the asset and liability management activity, the investment activity and the trading activity at the Bank, at IDB Bank and at MDB. Within the framework of the first line of defense, measurement, control and operating units operate independently from the risk acceptors.

Second line of defense. The risk management function is an independent function and its role is to complement the risk management activity performed by the business lines. This function has the necessary standing and authority to enable it to affect decisions that impact on the risk exposure, including involvement in the main strategic processes that affect the risk appetite, risk identification, mandatory professional guidance for the subsidiaries, policy updates and validation of the principal models used in risk management.

Third line of defense. The internal audit function at the Bank and at the Group companies is responsible for conducting an independent self-assessment of the degree of effectiveness of the implementation of the risk management processes at the Bank and at the Bank Group companies, on the basis of findings from the audits conducted according to a work plan that is approved by the boards of directors of the Bank Group companies.

Management supervision. Current management and supervision in the area of market risks management are performed, inter alia, by the following committees: the assets and liabilities management committee (ALM committee), the Group assets and liabilities management committee (GALCO) and the financial forum.

Mechanisms that enable an immediate response to exceptional market developments

The Board of Directors has approved the plan for strengthening capital adequacy in times of crisis and the plan for dealing with a liquidity crisis. In this context, the manner in which such crises are to be identified and dealt with has been defined, as has the forum authorized to deal with the crises and the powers and tools have been defined, available to it in doing so. Inter alia, it was defined that, where exceptional developments take place in the markets, a special financial forum, to be headed by the Head of the Financial Markets Division or by the Bank's President & CEO, depending upon the severity of the incident, will immediately be convened in order to discuss the market developments and the possible courses of action. The emergency plan also includes a contingency plan for fast reduction of the market risk and the scope of the risk assets.
Within the framework of the ongoing management of market risk, the Risk Management Division measures a large number of indicators in order to identify and give warning of changes in market trends (KRIs, "red lights"). This serves as an additional tool for identifying and giving warning of the development of crisis situations in the markets and a possible change in market risk.

Measurement and Reporting

Measurement of exposure to market risks, including the calculation of the main risk estimates is performed by the first line of defense at the Bank on a weekly basis, using a designated system for market risk management.
The second line of defense measures and controls the exposures to market risks according to additional risk indices, using an independent calculation, at weekly intervals for the Bank standalone and at monthly intervals for the Group. The risk management system is used as a data base for financial data, which contains the financial information regarding the range of financial instruments operated by the Bank, including embedded options, for market data (such as indices, exchange rates and interest rates), their volatility level and the statistical correlation between them, as well as financial and behavioral models. In addition, simulations are conducted through the system on all the transactions at the Bank and Group levels and on activities/portfolios (for trade and banking), and a variety of risk indices are calculated, including the interest exposures (it should be noted that the system is also used to measure the fair value for financial reporting purposes).
This system is also used by MDB in computing its exposure to market risks.
IDB Bank. Measurement of the exposure to market risks is performed by the first line of defense (Treasury) by means of a designated system for the management of market and liquidity risks. This system is an advanced system which increases the analysis capabilities and enables a monthly monitoring of the central risk assessing factors.
The measurement results are reported on a current basis within the framework of the relevant Management and Board of Directors committees.

Models and Risk Indices

Management of market risks is performed by several models and indices. Internal measurement takes into account factors additional to those that are used for disclosure purposes in the reports published for the public. The main indices in managing market risk have been defined by the Board of Directors. Since the models on which the risk indices are based are dependent on assumptions, the Bank has established a corporate governance structure and a framework for managing model risks, including challenging and validation processes.
The main indices used in managing market risks include indices of economic value sensitivity to changes in interest in various scenarios and an index of accounting value sensitivity in the capital scenario.
The additional indices and models include the Value at Risk (VaR), the potential losses in high volatility scenarios (IRRBB), and in Stress Tests, an analysis of anticipated interest income - the NII (Net Interest Income) and in the Earnings at Risk (EaR). In addition, there are models that express assumptions regarding customers' behavior in various scenarios, including a model for spreading current account credit balances having no maturity dates, and models for estimating early repayments of credits and deposits.
All the risk models and indices are regularly reviewed in an organized manner for definition purposes within the

framework of cataloging the models and their validation or independent testing by risk management parties. These processes are carried out according to the Bank's policy on the subject of model risk management, including the validation dates and the frequency thereof that are determined according to the level of risk attributed to each model on a specific basis.

Exposure to Interest Rate Risk

The Tables presented in this Chapter have been prepared according to the principles for the preparation of financial statements, and they differ from the data used for the current management of interest rate exposure.

Quantitative information regarding interest risk – sensitivity analysis

Net balance-sheet balance and net adjusted fair value[(1)] of the financial instruments of the Bank and its consolidated companies

	December 31, 2023			December 31, 2022		
	Israeli currency	Foreign currency[(3)]	Total	Israeli currency	Foreign currency[(3)]	Total
	In NIS millions					
Net balance-sheet balance	16,144	3,919	20,063	16,364	3,122	19,486
Net adjusted fair value[(2)(4)]	17,844	5,539	23,383	[(5)]16,876	5,099	21,975
Of which: the banking book	15,769	6,030	21,799	[(5)]16,743	4,038	20,781
Of which: Effect of allocation to periods of on-call deposits	4,112	2,548	6,660	4,000	2,221	6,221
Of which: Effect of early repayments of housing loans	212	-	212	167	-	167
Of which: Effect of early repayments of deposits from the public	(246)	-	(246)	(537)	-	(537)

Footnotes:

(1) Net balance-sheet balance and net fair value of the financial instruments, excluding nonfinancial items and after the effect of liabilities in respect of employee rights and of the allocation to periods of "on call deposits"

(2) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.

(3) Including Israeli currency linked to foreign currency.

(4) Not including liabilities for leasing.

(5) Improvement in the calculations at a subsidiary.

The impact of scenarios of changes in interest rates on the net adjusted fair value - consolidated

	December 31, 2023			December 31, 2022		
	Israeli currency	Foreign currency[(4)]	Total[(5)]	Israeli currency	Foreign currency[(4)]	Total[(5)]
	In NIS millions					
Parallel changes						
A parallel increase of 1%	(463)	41	(422)	(3)	170	167
Of which: the banking book	(415)	50	(365)	-	186	186
Of which: Effect of allocation to periods of on-call deposits	1,323	526	1,849	1,331	288	1,619
Of which: Effect of early repayments of housing loans	256	-	256	328	-	328
Of which: Effect of early repayments of deposits from the public	(120)	-	(120)	(213)	-	(213)
A parallel decrease of 1%	529	(88)	441	7	(202)	(195)
Of which: the banking book	480	(97)	383	9	(217)	(208)
Of which: Effect of allocation to periods of on-call deposits	(1,413)	(567)	(1,980)	(1,422)	(307)	(1,729)
Of which: Effect of early repayments of housing loans	(396)	-	(396)	(496)	-	(496)
Of which: Effect of early repayments of deposits from the public	123	-	123	223	-	223
Non-parallel changes						
Curving[(2)]	(767)	(3)	(770)	(649)	55	(594)
Flattening[(3)]	670	(78)	592	631	(28)	603
Interest rise in the short-term	429	(86)	343	585	52	637
Interest decline in the short-term	(469)	20	(449)	(635)	(53)	(688)

Footnotes:

(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.

(2) Curving – decline in interest in the short-term and increase in interest in the long-term.

(3) Flattening – increase in interest in the short-term and decline in interest in the long-term.

(4) Including Israeli currency linked to foreign currency.

(5) After offsetting effects.

The change in sensitivity to changes in interest rates stems mainly from the following reasons:
- In Israeli currency, an increase occurred in exposure to loss as a result of the shortening of deposit periods and from the updating of the behavioral model leading to the shortening of the period to maturity of deposits and from the growth in the credit portfolio;
- In foreign currency, an increase occurred in exposure to loss as a result of the shortening of deposit periods and the purchase of securities.

The impact of scenarios of changes in interest rates on net interest income and on non-interest financing income – consolidated

	December 31 2023			December 31 2022		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	482	23	505	521	(44)	477
Of which: the banking book	453	23	475	509	(41)	468
A parallel decrease of 1%	(817)	(22)	(839)	(1,033)	35	(998)
Of which: the banking book	(788)	(22)	(810)	(1,021)	35	(986)

Sensitivity of the income is calculated on the basis of various assumptions regarding the effect of a change in interest on the return on assets and the cost of the deposits (Beta) and application of minimum interest levels for pricing.
As of December 31, 2023, the estimated effect of a parallel increase of 1% on interest income amounted to an increase of NIS 505 million, whereas the estimated effect of a parallel decrease of 1% amounted to a decrease of NIS 839 million. This compared to estimates as of December 31, 2022, which amounted to an increase in interest income of NIS 477 million, in a scenario of a parallel increase of 1%, and to a decrease in interest income of NIS 986 million, in a scenario of a parallel decrease of 1%.
The change in sensitivity in the course of the year stems, mostly, from the update of the assumptions of the model on the deposits side, with differentiation between a scenario of rising interest rates and a scenario of declining interest rates, and this in view of the high interest environment.

For additional quantitative and qualitative details regarding the interest risks, see the “Disclosure according to the third pillar of Basel and additional information on risks” document, which is available for perusal on the Bank’s website, on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd.

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

Fair value of financial instruments. Most of the Bank’s balance sheet financial instruments do not have a quoted “market price” as they are not traded on an active market. Accordingly, according to the directive, the fair value is estimated using accepted pricing models, and in particular through the calculation of the present value of the discounted cash flows using a discount interest rate appropriate to the level of risk embodied in the instrument.
The determination of the discount interest rate is subjective. Thus, for most of the financial instruments, the fair value estimate presented below does not necessarily constitute an indication of the realizable value of the financial instruments on the reporting date.
The assessment of the present value of future cash flows was done according to the interest rates in effect on the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.
It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.

In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value.
Furthermore, due to the broad spectrum of possible assessment techniques and estimates in implementing the reporting directives with regard to the fair value, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.
Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.
For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements. For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 34 c.
The net changes in fair value, in the different linkage segments, stem from the active management of the active capital and the decision to move it according to returns expected in the different linkage segments.
No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the "going concern" assumption used at the basis of preparation of the financial statements.

Sensitivity analysis according to data used for interest exposure management (hereinafter: "economic exposure")

The data presented above, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks and according to the calculation of the table "Exposure to interest rate changes", which is presented within the framework of the document "Disclosure according to the third pillar of Basel and additional information on risks".
The current management of exposure to interest rates applies to all of the Bank's operations, and takes into consideration additional data that represent the economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.
The principal differences between the computation of exposure according to accounting fair value and the managed economic exposure are as follows:
(a) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the transfer prices.
(b) Items relating to liabilities for employee rights are included in the economic measurement in the CPI-linked segment, while in the accounting measurement they are presented in the unlinked segment;
(c) Economic exposure takes into consideration expected future cash flows, such as deposits in savings schemes, in contrast to the calculation on the fair value basis, which does not take into account such future deposits;
(d) An impaired non-interest bearing debt is related in economic exposure to the non-linked segment, as it does not carry interest, while in fair value calculations, it is presented in its original segment;
(e) Optional savings schemes are presented at fair value in their principal linkage segment, while in economic exposure each component is presented in its related linkage segment.

Effect of hypothetical changes in interest rates of 100 base points on the Group's economic value

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			December 31, 2023		
An increase of 100BP in interest rates	(194)	(703)	15	27	(855)
A decrease of 100BP in interest rates	283	772	(60)	(29)	966
			December 31, 2022		
An increase of 100BP in interest rates	(62)	(518)	106	26	(447)
A decrease of 100BP in interest rates	76	432	(135)	(28)	345

Changes in effect of the scenario – the non-linked segment shows decline stemming from the following factors:
- Effect of the rise in yields on the behavioral models – the rise in interest prolonged the period to maturity of deposits, thereby reducing exposure to rising interest;
- Reduction in exposure to interest inherent in the available-for-sale securities portfolio.

Changes in effect of the scenario – the linked segment shows an increase stemming from the following factors:
- Increase in the linked credit, mostly in the mortgages activity;
- A rise in yields which reduced the rate of premature repayments forecasted for mortgages, thus increasing exposure.

The changes between the effect of the changes in interest in this table and the changes presented in the table "the impact of scenarios of changes in interest rates on the net adjusted fair value" shown above are due mainly to the use of different discounting curves in the two measurements, as set forth above. This effect was mostly reflected in the non-linked segment, due to the fact that a significant gap in results exists in this segment, stemming from capitalization at transfer prices instead of capitalization at the cost of credit, since most of the interest exposure relates to the credit portfolio. In the dollar segment (including foreign currency) there is no material gap between the two tables, since most of the interest exposure in this segment derives from the deposits, which are not affected by the gap between the transfer price and the cost of credit.
In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.

The impact of scenarios of changes in interest rates on the equity attributed to the Bank's shareholders

	December 31 2023	December 31 2022
	In NIS millions	
A parallel increase of 1%	(275)	(246)
A parallel decrease of 1%	245	228

As of December 31, 2023, the assessment of the effect of a parallel rise of 1% in the interest rate on the capital reserve in respect of the available-for-sale securities portfolio and the liabilities for pension amounts to a capital loss of NIS 275 million. In case of a parallel decrease of 1% in the interest rate, the capital profit amounts to NIS 245 million.

Replacement of foreign interest benchmarks (base rates)

The Bank has implemented the transition to new interest indices in relation to each of the relevant currencies.
On June 30, 2023, the LIBOR interest quotation for the US dollar was discontinued; the Bank replaced the interest index for the balance of the loans linked to the LIBOR interest, to an alternative interest index based on the SOFR graph, as published by the Chicago Mercantile Exchange (CME) with the addition of adjustment of the risk margin determined by the International Swaps and Derivatives Association (ISDA). Notices were delivered to the relevant customers and in publications of the Bank. Interest SWAP derivative transactions have been changed in accordance with the definitions of the international ISDA organization, to an alternative interest rate benchmark based on the SOFR graph with the addition of a compensating margin, as determined by the organization.

The Bank had various contracts that continued beyond June 30, 2023 which related to LIBOR interests. All contracts were exchanged on the transition date to an alternative benchmark interest with the addition of a compensating margin.
The Discount Group is no longer exposed to the LIBOR interest after June 30, 2023.

Inflation and exchange rate risk

Exposure to base risk is measured in the CPI linked segment and in the foreign currency segment (including Israeli currency linked to foreign currency). For details regarding assets and liabilities according to linkage terms, see Note 32 to the financial statements.
Effects of the Iron Swords War. The war has led to high volatility in the exchange rate of the shekel relative to the dollar. At the outbreak of the war, the Bank of Israel intervened in the foreign currency market but, despite this, the exchange rate depreciated during October, with the exchange rate reaching a level of NIS 4.08 to the dollar. This trend has since reversed and, as of the date of publishing the financial statements, the exchange rate had appreciated such that the exchange rate is now lower than that it was on the eve of the war. The Bank has no significant exposure to changes in exchange rates except for the investment in New York, which has been recognized as a structural position. For further details, see "Effect of hedging relations and transactions in derivative instruments on the exposure" below.
Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the equity as of December 31, 2023.
Effect of hedging relations and transactions in derivative instruments on the exposure. The exposure in the CPI-linked segment is created due to an excess of applications in relation to sources in this segment. In order to hedge the exposure in the CPI-linked segment, the Bank makes use of contracts on the consumer price index. As a general rule, the Bank's policy is not to create an exposure to foreign currency exchange rates in its ongoing activity. Coverage of the built-in foreign currency position, which arises from the investment in IDB Bank, was canceled in the past, in order to reduce the sensitivity of the capital ratio to changes in exchange rates (see above "Exposure regarding the investment in Discount Bancorp Inc." in section "Capital and capital adequacy").

The Bank's capital sensitivity of changes in exchange rates

	December 31, 2023			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	280	138	(134)	(268)
EUR	63	31	(27)	(50)
Other Foreign Currencies	24	12	(12)	(24)

This effect has been computed on the basis of the expected change in the fair value of the Group in the various currencies, given the scenario determined by the Supervisor of Banks.
Sensitivity of the capital to changes in the CPI. The sensitivity of the capital to changes in the CPI is presented in the following Table, which details the effect of a 3% change on the capital as of December 31, 2023.

Sensitivity of the capital to changes in the CPI

	December 31, 2023	
	in NIS millions	
	Increase 3%	Decrease 3%
	553	(553)

This effect has been computed as the difference between the net fair value based on the "known" CPI, including off-balance sheet items, and the net fair value after raising/reducing the CPI by 3%.

Share Price Risk

Shares Position in the Banking Book

Strategy and processes

Within the framework of the policy for the diversification of investments, the Bank acts in two principal areas:
- Private equity funds, venture capital funds and a fund of hedge funds;
- Direct investments in companies considered as non-financial investments.

For details as to the investment policy and the entities in which the Bank invests, see below "Investments in non-financial companies " under "Activity of the group according to regulatory segments of operation – additional details".

Investments in shares

	December 31	
	2023	2022
	In NIS millions	
Investments in shares of associates[1]:		
Non marketable shares	471	486
Shares in the available-for-sale portfolio:		
Marketable shares	167	130
Non marketable shares	1,732	1,637
Total shares in the available for sale portfolio	**1,899**	**1,767**
Total investment in shares	**2,370**	**2,253**

Footnote:
(1) For additional information, see Note 15 to the financial statements.

Capital requirement regarding share position

	December 31	
	2023	2022
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds[2]	308	298
In respect of investments in other shares[3]	163	150
Total capital requirement share position[1]	**471**	**448**

Footnotes:
(1) The capital requirement was computed according to 12.5% and does not include capital requirement for investment in shares in the trading portfolio.
(2) These investments are weighted at risk weight of 150%.
(3) These investments are weighted at risk weight of 100% and 250%.

For additional quantitative and qualitative details about share price risk, see the "Disclosure according to the third pillar of Basel and additional information on risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

Management of Positions in the Trading Portfolio

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 the result of the Bank's activity as a market maker and are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" and the dynamic management of the liquid financial assets portfolio. 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.
In this connection, it should be noted that the Group investment policy prescribes that the Group should not invest in entities most of whose business is transactions in derivative financial instruments and short selling, such as hedge funds.
The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. In addition, Management determined a set of limitations on different trading operations in terms of the scope of activity at the product level. 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.
In 2023, no deviations from limitations set by the Board of Directors were recorded.

Liquidity and Financing Risks

Liquidity risk is a 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 of which, the Group would be forced to raise funds and/or dispose of assets in a manner that would cause it a material loss. The Bank has determined the limitation of maximum exposure to liquidity risk. In addition, the coverage ratio is being examined and managed on a current basis, as required by Proper Conduct of Banking Business Directive No. 221.
Liquidity risk is a stability risk comprising one of the material risks for any financial institute. The objective in managing this risk is to avoid a situation in which the Bank will have difficulty in meeting its obligations as a result of unavailability of liquid resources. The underlying assumption is that the materialization of liquidity risk, in most cases, will cause losses because of the need to raise funds at high prices or to realize non-liquid assets at a loss. Accordingly, the Discount Group has formulated a liquidity risk management policy that, inter alia, meets the requirements as set forth in Proper Conduct of Banking Business Directive No. 342 (The Internal Liquidity Model), Directive No. 221 (Liquidity Coverage Ratio) and Directive No. 222 (Net Stable Funding Ratio).
The "Liquidity Risk Management Policy" document is updated and approved once each year by the Management and the Board of Directors.
Within the framework of the policy, the following subjects are prescribed: the liquidity risk appetite, including a set of limits, the organizational structure for managing the risk and the core processes both in routine circumstances and on the occurrence of a liquidity event.
Within the framework of the current management, the liquidity risk is being monitored by means of the liquidity coverage ratio for periods of up to one month (Proper Conduct of Banking Business Directive No. 222). For longer periods, the measurement is carried out according to the NSFR model (Proper Conduct of Banking Business Directive No. 222). Concurrently, the liquidity position is being assessed by means of an internal model for different periods of between one day and up to one year (Proper Conduct of Banking Business Directive No. 342). The internal model computes the liquidity ratio and the liquidity gaps under various stress scenarios. These scenarios simulate specific liquidity events for the Bank/the Group and various systemic events.
In addition to the internal model, over its various scenarios, the Bank makes use of additional indices and tools to monitor the liquidity risk:
- The mix and concentration of the sources, the mix and concentration of the assets, supplementary scenarios for the internal model and a comparison with other banks;
- Within the framework of the current management of the liquidity risk, the Risk Management Division measures a large number of indicators for the purpose identification of and warning against changes in trends of liquidity risk (KRI's; "Red lights"). This being an additional tool for the identification and warning against possible changes in the liquidity position.

The Bank has determined the limitation of maximum exposure to liquidity risk. No deviation from the said restrictions was recorded in 2023.
Within the periodic updating of the policy document, a part of the limitations were updated. Also extended was the list of indicators regarding the monitoring of the liquidity risk.

Plan for dealing with a Liquidity Crisis

The Bank's CFP clearly describes the range of practical measures required to be implemented in times of emergency. The plan describes the processes and the parties that will be responsible for identifying a crisis situation, for managing the crisis, including prescribing spheres of responsibility and authority, for reporting processes and frequency of reporting, for Group management and coordination, for declaring the restoration of a normal business situation, and for establishing processes for lesson learning. In addition, the plan presents at every level a variety of alternatives for action which require great consideration before their activation, through examining their implications.
The plan for managing a liquidity crisis constitutes a set of defaults and tools that the organization will activate when a liquidity crisis develops. Nevertheless, it does not constitute an alternative to exercising judgment and taking real time decisions– at the various levels of the Bank's management and which are obligatory given the reality of a volatile and unexpected crisis situation, such as a liquidity crisis.
The main focal points to which the plan provides a solution are:
- Identifying and announcing a liquidity crisis and the type of crisis (specific crisis, system crises, combined crisis);
- Measures to improve the liquidity level;
- Measurement and monitoring of the liquidity level;
- Advocacy;
- Group management.

The plan differentiates between different types of liquidity crises, including systemic crisis, a specific crisis and a crisis combining different levels of intensity of each type. In addition, the plan needs to address a situation defined as a pre-crisis situation, a situation of higher specific/systemic liquidity risk prior to an event being defined as a crisis event, as well as the transition between different levels of stress or transition between different types of crises. In addition, it provides a response to a liquidity crisis that materializes in a Group subsidiary and risk that impacts on the subsidiaries/the Group as a whole.
In recent years the business environment presented many challenges: starting with the Corona virus outbreak, the changing interest rate environment and as from the fourth quarter of the year – the "Iron Swords" War. The emergency plan has been tested all along this period and found to be proper and adequate.
The principal aspects of the plan are being reviewed and approved annually, within the framework of approving the liquidity risk management policy document.

Group management

The policy document also regulates the management of the Group liquidity risk. In general, the guiding principle is that IDB Bank and MDB will independently manage their liquidity risk with the aid of mandatory professional guidance and according to models approved by the parent company. The internal model of the parent company requires maintaining liquidity in case the subsidiaries' models exceed the thresholds defined in the policy document. The model does not include reliance on the transfer of liquidity from the subsidiaries to the parent company. Most of the liquidity surpluses in the Group are currently concentrated in the parent company.

Reporting

Daily – Measurement of the liquidity risk is made using an internal liquidity model (Proper Conduct of Banking Business Directive No. 342) and according to the liquidity coverage ratio (LCR - Proper Conduct of Banking Business Directive No. 221), on a daily basis, by means of the Bank's market and liquidity risks management system. Measurement results, both for the Bank and for the Group, are reported to the risk managers and control parties.
Weekly – A designated liquidity forum meets at weekly intervals at the least and discusses current liquidity topics.

Material effects are reported once a week to the financial forum, headed by the Head of the Financial Markets Division.

Monthly – The Bank's Management reports within the framework of the ALM Committee on the liquidity position of the Bank, the subsidiaries and the Group as a whole.

Quarterly – Managements of the Bank and of the subsidiary companies report to the Group's asset and liability management committee (GALCO) once in every quarter, the liquidity condition of each company, as well as trends and the status of the Group's liquidity situation.

Liquidity Coverage Ratio

The average liquidity coverage ratio of the Discount Group for the fourth quarter of 2023, on the basis of 79 observations average, stood at 130.7%, compared with 130.5% as of December 31, 2022, higher than the minimum requirements according to the instructions, which stand at 100%. For additional details, see Note 25 to the financial statements, section 3.

The average liquidity coverage ratio of the Bank for the fourth quarter of 2023, stood at 146.2%, compared with 145.4% as of December 31, 2022, higher than the minimum requirements according to the instructions, which stand at 100%. For additional details, see Note 25 to the financial statements, section 3.

Effects of the Iron Swords War. On October 7, 2023, the Iron Swords War broke out. Since the outbreak of the war through the date of publishing the financial statements, the War has had no material impact on the Bank's liquidity coverage ratio.

Liquidity and the Raising of Resources in the Bank

The growth in credit in 2023 was financed by debt issues effected by the Bank, by raising deposits from the public, by focusing on nonfinancial corporations and by pledging the mortgage loan portfolio. The following trends have been noticed at the Bank during the year:

- An increase of approx. NIS 3.5 billion in the volume of non-linked and CPI linked shekel deposits, an increase at a rate of approx. 2.1%, this increase stemmed from the growth in deposits by corporations in the amount of approx. NIS 4 billion, and in financial deposits in the amount of approx. NIS 1.5 billion, which was offset by a decline in retail deposits in the amount of approx. NIS 2 billion;
- The amount of foreign currency deposits increased by approx. US$500 million, an increase at a rate of approx. 3.3%. This increase stemmed from the growth in retail deposits in the amount of approx. US$500 million, and in financial deposits in the amount of approx. US$800 million, which was offset by a decline in deposits by corporations in the amount of approx. US$800 million. The foreign currency deposits, including exchange rate effect, rose by approx. NIS 3.4 billion.

Transferability of liquidity within the Group is conducted on the basis of transfer prices mechanism and according to market prices. Group companies may not rely in their liquidity model on the transfer of funds from other group companies where no liquidity framework had been defined which is considered in the liquidity model at the counterparty.

During 2023, the Bank maintained liquid assets in a volume larger than that of its liquid liabilities and its internal liquidity model indicated a liquidity surplus.

Deposits from the public (at the Bank)

	December 31, 2023	December 31, 2022	Change compared to December 31, 2022	
	In NIS millions		In NIS millions	in %
Non-linked shekels	153,861	153,976	(115)	(0.1)
CPI-linked shekels	13,996	10,304	3,692	35.8
Foreign currency and foreign currency linked shekels	56,578	53,139	3,439	6.5
Total	**224,435**	**217,419**	**7,016**	**3.2**
Foreign currency and foreign currency linked shekels - In US$ millions	15,599	15,101	498	3.3

Deposits from Banks (at the Bank)

	December 31, 2023	December 31, 2022	Change compared to December 31, 2022	
	In NIS millions		In NIS millions	in %
Non-linked shekels	5,041	9,241	(4,200)	(45.4)
CPI-linked shekels	17	22	(5)	(22.7)
Foreign currency and foreign currency linked shekels	1,131	568	563	99.1
Total	**6,189**	**9,831**	**(3,642)**	**(37.0)**

For additional details regarding liquidity risks and the management thereof, see the “Disclosure according to the third pillar of Basel and additional information on risks” document, which is available for perusal on the Bank’s website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd., and also Note 32 regarding Assets and liabilities according to linkage terms and Note 33 regarding Assets and Liabilities according to Currency and Maturity Periods.

For additional details regarding financial risk, see the “Disclosure according to the third pillar of Basel and additional information on risks” document, which is available for perusal as stated.

Operational Risks

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.
The framework for the management of operational risk includes the policy document for risk management, which is approved once in each year by the Management and by the Board of Directors, and adopted by the subsidiary companies, and the risk tolerance statement, which determines qualitative and quantitative limitations regarding material risks existing at the Bank Group. The Group operates an automated system for managing the risk, which measures and assesses the overall operational risks and reports operating failure events in all risk centers.
Operational risks are being managed on the basis of the current identification of processes, risks and controls, as well as on the basis of failure events data base, the monitoring thereof and the drawing of conclusions there from and identification of the factors causing the failure. Moreover, material risks are being reduced by means of the formation of recommended controls, monitoring or transfer to a third party (by purchase of different insurance policies).
Once every three years (or during the three years) a comprehensive operational risks survey is conducted that includes, inter alia, relating to fraud and embezzlement risks.
A survey of operational risks was concluded in the fourth quarter of 2022. The survey focused on identifying the material risks in the Bank’s divisions which could affect the overall operational risk profile. During 2023, the review was challenged and adjustments were made in accordance with the operational risk management challenge.

There is a continuing trend of applying changes to the work processes and expanding the digital services that the Bank provides to its customers, deriving from the realization of the strategic plan or from new products, as well as from increased efficiency. These changes create potential for increased risk, mainly in the short term. At the same time, management quality is improving, inter alia due to the increase and absorption of awareness for the reporting of events, the strengthening of interfaces and controls and the mechanizing of processes.

Within the framework of the annual approval of the risk tolerance declaration, the limits of and limitations on tolerance to fraud events as regards E-Banking have been raised due to the increase in activity using digital means at the Bank.

In 2023, the fraud risk continued to be high in light of the continued rising trend in fraud incidents and attempts, the identification of new ways of fraud, and the increase in damages as a result of these incidents. The Bank and Group have observed an increase in phishing and fraudulent withdrawals, credit fraud, card counterfeiting and ATM withdrawals, and such like. The increase is part of a worldwide rising trend in fraud incidents and is due to the expansion of activity and the increase in the E-Banking channels thresholds and the diversion of activity to them. The Bank takes measures to hedge the risk, including writing dedicated monitoring rules, limiting amounts (night ceilings), installing sensors on ATM devices, and replacing cards not having an EMV component. In addition, the level of awareness of some of the Bank's customers still seems to be insufficient and the Bank continues to take measures to raise customer awareness of fraud incidents.

During 2023, both the Bank and the Group exceeded the internal maximum ceiling for the total damages caused by fraud over E-Banking.

With regard to the risks of embezzlement and unusual activity on the part of employees: The Operational Risk Management Department operates a dedicated unit – the Unit for Embezzlement and Fraud Risk Management, that engages in raising awareness, monitoring irregular employee actions through a dedicated system, classifying sensitive positions, conducting integrity tests, and more. A "hotline" has been installed in the Internal Audit Division to handle anonymous referrals on the following topics: suspicion of embezzlement and fraud; suspicion of improper accounting activity; suspicion of failure to comply with the provisions of the law; and, material deviations from the Bank's procedures.

Malfunction in the PayBox Application. For details, see the 2020 Annual Report (p. 97). For details regarding lawsuits filed with respect to the said event and applications for their approval as class action suits, see Note 26 section 9.5 to the financial statements. For details regarding the Privacy Protection Authority, see "Proceedings regarding Authorities" below.

Business continuity. The issue of business continuity is managed by means of the policy for the management of business continuity, which defines the solution concept for facing a crisis, by means of the business continuity management program (BCM), which is designed to ensure the continuation of the regular functioning of the Bank as regards its business transactions and as regards services defined as essential.

At the base of the assessments for business continuity stands the backup for the vital technological infrastructure established by the Bank, and the providing to customers of supporting layouts and services.

In recent years, the Bank upgraded the business continuity activity by means of an updated identification of business impact analysis (BIA) processes, a renewed definition of the concept of operation and management of risk in crisis events and the exercise thereof, including the integration of operational, financial scenarios as well as cyber aspects and their synchronization.

Outsourcing and Supplier Risks

Outsourcing and Supplier Risks are managed as part of the operational risk. Against the background of activities being outsourced and due to collaborations that are occurring with non-banking entities in relation to core banking activities, outsourcing and supplier risks require that the monitoring and control processes be upgraded. Preparations for the risk management made by the Bank according to Proper Conduct of Banking Business Directive No. 359A "Outsourcing", include a renewed definition of the policy document and of risk tolerance, devising of a plan for the management of the risk and conducting work processes relating to the identification of a material outsourcing and the manner of treatment thereof, including upgrading the monitoring and control processes relating to such activities, taking a risk-based approach.

For additional details regarding operational risks and the manner of management thereof, see the document "Disclosure according to the third pillar of Basel and additional information on risks" available 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.

Other Risks

Cross-border Risks

The Group's activity with customers in Israel and abroad involves risks stemming, among other things, from exposure to liability for evasion by the Group's customers from reporting and payment of taxes in Israel or abroad, made incidentally to using the Bank's services, as well as the violation of the provisions of foreign laws applicable to the services and products provided by the Group to its customers.

Exposure to cross-border risks has grown significantly in recent years, against the background of adding regulatory requirements, alongside enhanced enforcement in Israel and abroad, applying to financial institutions and their customers, as part of the increased efforts of the authorities in the fight against tax evasion.

Realization of this risk may have considerable implications on the Bank's operations and image. Therefore, as part of the current risk management, this risk has been defined as a separate risk category in the ICAAP process and within the framework of the risk review contained in the Annual Report, and the risk level thereof has been assessed as "medium-high".

Further to the activity carried out in recent years in the Bank and the Group with respect to U.S. customers and other foreign resident customers, concurrently with the developments in regulation and enforcement regarding cross-border risks in Israel and around the world, a Group policy on this matter has been formulated, this risk appetite has been determined and identification, monitoring, control and reporting processes have been added. The action for reducing the Group's international presence, within the framework of the implementation of the strategic program of the Bank, also contributed to the reduction of cross-border risks exposure. In addition, in view of the regulation and enforcement relating to funds of Israeli resident customers, the origin of which may be in tax evasion or in income not reported to the Tax Authority in Israel, as required, amendment of the Money Laundering Prohibition Law to include tax offences as a predicate offence, as well as for the purpose of reducing money laundering risks, also in circumstances of a voluntary disclosure process, the Group implemeted the integration of a risk-based approach, for identifying and monitoring accounts and activities of Israeli resident customers, in response to that stated above.

Legislation in Israel

FATCA. The income Tax Ordinance and the Prohibition of Money Laundering Law, 2000, were amended in 2016. The aim of the amendment to the Income Tax Ordinance is to establish the implementation of the inter-state FATCA agreement between Israel and the United States dated June 30, 2014, and the implementation of the AEOI/CRS information exchange agreements of the OECD. Following the amendment of the Ordinance, the Regulations required under it were also published.

The Law and the regulations detail the identification, regularization and reporting required regarding existing and new customers, including the duty of informing those customers included in the reports, delivery to the Tax Authorities of information which the Authority is required to deliver to the tax authorities of a foreign country. In addition, the Ordinance determines monetary sanctions for non-requirement of information, the non-examination thereof as required, or for deficiencies in the complete delivery thereof.

The FATCA regulations require the closing up of bank accounts of those customers who refuse to cooperate with the financial institutions and which had been opened in the transitional period between date of signature of the State of Israel on the FATCA agreement and date of entry into effect of the regulations.

The Bank implements the legislation requirements relating to the implementation of FATCA in Israel. The Bank has completed the annual report to the Israeli tax authorities in the matter of FATCA for the year 2022.

Automatic exchange of information (CRS). By power of the said amendment to the Income Tax Ordinance, the Income Tax Regulations (Application of a uniform standard for the testing and reporting the propriety of information regarding financial accounts), 2019, were published on February 6, 2019. According to Regulations and the guidelines of the Supervisor of Banks in the matter, the Bank continues in identifying countries serving as tax residence for its customers and in the implementation of the CRS standard, including identification, classification and automatic exchange of information regarding financial accounts of foreign residents. The Bank has completed the CRS annual report to the Israeli Tax Authority for the year 2022.

Information Technology Risks

The IT layout comprises a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.
Core processes for risk management. The core processes are based on the risk management principles, with adjustments required with respect to the IT world, with the aim if allowing efficient focusing on processes and systems identified as having high risk of disrupting business activity and/or disturbing compliance with required Regulation, maintenance of the fitting of the technological development to the business strategy and to changes in the operational environment, as well as the adequacy of the ability of the technology to recover from crisis situations for the continuing support of the Bank's business needs and of complying with the Regulation to which the Bank is committed.

Strategic Risk

The strategic risk is being managed by the Discount Group according to the risk management concept of three lines of defense, and the Head of the Strategy and Finance Division acts a manager of this risk. Risk environment challenges and uncertainty as to the continuation of the effects of the War, alongside challenges regarding competition and developments in innovation, comprise a challenge in managing the risk.
The Bank continues in the advancement of a multi-annual strategic plan, providing response to anticipated challenges and to changes in the competition environment, and includes strategic projects focused on improvement of service and services, alongside the accelerated advancement of efficiency processes. The strategic plan is made up of three central pillars – accelerated evolution of traditional banking, revolution in banking business by way of groundbreaking innovation and maximizing the value of the Group.
The plan is examined once a year, with attention being paid to changes in the local and global competitive environment, while studying the need for the updating of focal items and/or introduction of new projects at the Bank and at the subsidiaries.
The Risk Management Divisions at the Bank and at the principal subsidiaries accompany material and strategic projects with the intention of verifying the uncovering and reduction of risk issues, including by way of performing new product processes, where required.

Reputation Risk

The reputation risk is being managed by the Discount Group according to the risk management concept of three lines of defense. Due to its importance and complexity, this risk is being managed by the highest echelons in the organization. The President & CEO is responsible for the risk management in times of crisis, and the Head of the Strategy and Finance Division is responsible for its management in normal times. This, in addition to the responsibility of each member of Management for the field under his control and the functions that support risk management (spokesperson, investor relations, the Officer in charge of the Regulation, the Officer in charge of approaches made by the public, the Officer in charge of business continuity, etc.).

In supporting risk management, different indices and indicators relating to the Bank and its subsidiaries and having possible connection to risk, are being monitored.
Furthermore, reputation risk management aspects include also preparations for confrontation with different crisis situations, including being a derivative of crisis events having a potential impact of the second order on the reputation of the Group.

Data and cyber protection risks

The principal risks involved in the impairment of data and cyber protection may lead to impairment of the privacy and confidentiality of the information of the Bank, its customers and employees, the realization of cyber threats, hostile use of information by users of the system, distortion of data in the systems, impaired availability and survivability of systems and data, impairment of the Bank's business and its reputation.
For additional details, see above under "Leading and developing risks" and under "Data protection and cyber defense risks" in the document "Disclosure according to the third pillar of Basel and additional information on risks".

Environmental and climate risks

Environmental Risks

Environmental risk is the risk stemming from exposure (direct or indirect) of financial corporations to activities having a potential for environmental damage, or which would be affected by it, such as, for instance, air and water pollution, soil contamination, harm to the biodiversity and more.
The Group applies a policy, according to which, consideration of the environmental risk will comprise a layer of the total risks considered by the corporation when granting credit being part of the underwriting process, in the current management of credit and within the framework of the periodic discussion of the borrower.
The Bank has an organized credit methodology regarding environmental risks that is intended to monitor the risk of credit losses that might be caused as a result of provisions pertaining to environmental quality hazards and the enforcement of such provisions (such as a deterioration in a customer's business position due to penalties resulting from non-compliance with the provisions of the law). Within the framework of the methodology, the Bank has defined an evaluation process for the environmental risk level of customers in economic sectors that might be exposed to environmental risks and for the quality of risk management conducted by these customers. This process is conducted upon the granting the credit and at the time of the periodic assessment of the quality of customers and the quality of the collateral and according to the level of materiality.
The methodology for identifying environmental risks includes, inter alia, mapping the environmental risk potential by economic sectors, analyzing and referencing specific environmental risk aspects at the borrower level, within the framework of the examination and approval processes for credit applications and major sectoral exposures that have been identified as being exposed to a higher level of environmental risk, such as sectors in the fields of mining and quarrying, energy production, industrial chemicals, the food industry, etc., as well as within the framework of the ongoing management of the risk.

Climate Risks

The global agenda, and consequently that of the Israeli regulator too, has placed significant emphasis in recent years on the global climate crisis, its anticipated ramifications and the risks it generates or intensifies, both in general and in the context of the financial system in particular. Within this framework, the recognition is also emerging that, despite the apparent affinity of climate risks to environmental risks, this is a distinct field with unique characteristics, different types of risk, and in particular a significantly higher potential risk level.
Climate risks can be divided into two main categories:

- Physical risks – resulting from the proliferation or intensification, either of extreme natural events such as flooding, flash floods, storms, droughts, heat waves and cold waves, fires and the like, or of long-term consequences such as changes in the spread and scope of precipitation, the movement of the desert line, the rise in sea levels, erosion of coastal cliffs, and more.
- Transition risks – consequences of changes in regulatory, economic and business processes worldwide due to trends in the transition from a high-emissions greenhouse gas economy to a low-emissions/zero-emissions economy; this is due to national and international activity to mitigate the expected results of the climate crisis, including as a result of technological changes and developments, changes in the supply and demand of commodities, products and services, regulatory adjustments and updates, and more.

Climate risks by their very nature differ from many of the other risks that are managed by the Bank since, on the one hand, they are characterized by gradual changes over a long period of time that make their identification and quantification difficult and increase the uncertainty of their possible consequences, and, on the other hand, they have a close connection to developments and to regulatory, economic and applied effects all over the world, beyond the Bank's main activity environment. From this perspective too, the preferred way to manage climate risks in general is not as a designated independent risk category, but rather through their implications for the traditional financial risks that the Bank manages, including credit risks, market risks, liquidity risks, operational risk, and so on. In this way, climate risks can affect the Bank, inter alia, due to their effect on its customers – business activity, household behavior, collateral value and more – as well as directly, including in the context of changes (in Israel and around the world) in the economic environment, changes in regulation, damage to liquidity, investment, goodwill, and more.

Further impetus to the Bank's preparations for climate risk management was given in June 2023 with the publication of Proper Conduct of Banking Business Directive No. 345 ("the Directive"), which deals with the principles for the effective management of climate-related financial risks, which constitutes the adoption of the principles document of the Basel Committee on Banking Supervision (BCBS) of June 2022. Following publication of the Directive, the Bank defined its corporate governance structure for climate risk management and appointed a climate risk management officer, who coordinates and integrates the Bank's activities on this topic. At the same time, the Bank is preparing and working to implement the Directive in practice, including by examining the traditional types of risks, the manner and extent to which they are exposed to the consequences of climate risks, and the methodological, procedural, and reporting responses to the quantifications and management of these risks. Special emphasis is placed on risk management in the business-commercial credit portfolio, where, inter alia, the Bank has mapped the main areas of activity exposed to the possible consequences of climate hazards, has defined the potential for the inherent and residual risk in each area, and is advancing processes to assess the actual residual risk from the individual customer level up to the portfolio level as a whole. All this is taking place in light of the Bank's assessment that, alongside the importance of preparedness for the consequences of the risks and their management, the Bank's potential exposure to the significant financial ramifications of the aforementioned dangers, over the next few years, is low.

For the optimal management and promotion of this topic at the Bank, a dedicated function has been set up in the Risk Management Division to handle this topic. In addition, the Bank has conducted a survey of the gaps with standard practice and has formulated a work plan for comprehensive risk management, based on the study of existing trends in the field.

In addition, the Bank is preparing to update its activity documents and methods and to adapt them to the dangers of the climate crisis, when inter alia, adjustments are being examined and implemented in policy documents, business strategy, risk appetite, work procedures and more.

Legal Risks

A legal risk is the risk of loss, loss of income or damage to the business caused, inter alia, by the absence of power to legally enforce execution of a contract or by ignorance of the provisions of the law or by a mistaken interpretation of the provisions of the law, including principal or secondary legislation, directives of supervisory authorities, etc., requiring the Bank to act in accordance therewith, or from exposure to legal proceedings against the Bank or any of its employees or officers within the framework of their work at the Bank or on its behalf, on the criminal, administrative or civil plain.

The legal risk includes, inter alia, exposure to penalties, fines or other punitive damages, as a result of supervisory enforcement actions as well as private settlements.

According to Proper Conduct of Banking Business Directive No. 350, the legal risk forms part of the operational risk, defined therein as risk of losses due to improper or failure of internal processes, employees and systems, or due to external events.

The principal risk factors for legal risk exposure are: absence of knowledge of the law applying to the operations of the Bank and the Group, mistaken legal advice, activity without legal support, mismatch of standard documents and procedures to changes in the law, non-compliance with the law and/or regulations.

The Bank's operations are regularized by various regulatory directives and by legislative instructions, regulations and rules imposing on the Bank various duties and restrictions on the part of the supervisory authorities to which the Bank is subject in its operations, this, inter alia, due to its status of a "banking corporation". Any action in contravention of these provisions, or the non-implementation thereof, may expose the Bank to legal risks.

The Chief Legal Adviser is the chief legal risks manager at the Bank and at the Group.

The Bank maintains a Group legal risk management policy, which is updated from time to time. The policy was recently updated and approved by the Board of Directors in December 2023.

Management of the regulatory risk is conducted by the Legal Consul Division, separately from the legal risk. Regulatory risk focuses on identifying and monitoring legislation processes and drafts issued by the Bank of Israel, bringing them on time to the attention of the relevant functions at the Bank, in order to appropriately analyze the effect of such processes upon the Bank, and ensure the existence of the required preparations by the Group.

The Bank's legal risk management policy has been adopted, mutatis mutandis, by the principal subsidiaries in Israel and by IDB Bank.

Compliance Risks

Compliance risk is the risk of the imposition of legal or regulatory sanctions, of a material financial loss or of reputational harm, which the banking corporation might sustain as a result of failing to comply with the laws, the regulations, the regulatory directives, the internal procedures and the ethics code that apply to its banking operations.

Prohibition of Money Laundering and Terror Financing

Discount Group's activities with banks acting in the Palestinian Authority. During 2017, different meetings were held between the Bank and the Ministry of Finance, the Ministry of Justice and the Supervisor of Banks with a view of forming tools for the hedge of the risk involved in the provision of services to the banks acting in the Palestinian Authority, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity for possible monetary claims. During the second quarter of 2018, the Bank received immunity and indemnity letters signed by the State of Israel. In the letter of immunity, the State of Israel undertook not to file an indictment against the Bank, Mercantile Discount Bank, its officers and employees for certain offenses in the area of the prohibition of money laundering and the financing of terror, in connection with the provision of services to the banks acting in the Palestinian Authority during the period from March 28, 2016, until May 31, 2019 ("the period of immunity and indemnity"). In the letter of indemnification, the state of Israel has undertaken to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for the expenses (liability under a peremptory ruling and court costs), which will be incurred by the banks in connection with the conduct of civil proceedings or criminal proceedings (that had not concluded with a conviction), which will be brought against the banks, their officers or their employees, in connection with the provision of services to banks acting in the Palestinian Authority in the period of immunity and indemnity. The aforesaid immunity and indemnity undertaking from the state was subject to reservations and conditions with which the banks need to comply, and which were specified in the letters of immunity and indemnity. On June 26, 2018, the Supervisor of Banks informed the Bank and MDB that she would not take any enforcement measures for everything relating to the operation of the banks regarding the correspondence services provided by them to which the immunity letter applies. On October 21, 2018, the Government Secretariat published an announcement stating that the government had decided to establish a government company, wholly-owned by the State of Israel, which will provide correspondence services to the Palestinian banking system via the Palestinian Monetary Authority, using the payments array in Israel, with this replacing to a certain extent the service that some of the commercial banks are currently providing, and in light of their having announced their intention to cease providing such service.

On June 30, 2019, the Bank received a letter of indemnity signed by the Accountant General, which extends the indemnification period through February 28, 2021, which later on, was extended until May 31, 2021. Inter alia, the State has undertaken in the letter of indemnity to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for each indemnifiable event. Moreover, the State has also undertaken to indemnify the banks for proceedings that conclude in a mutually agreed fine in the United States (without conviction). The State's undertaking of indemnity is subject to qualifications and terms with which the banks must comply, which are similar to the qualifications and terms prescribed in the original letter of indemnity.
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.
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 several more times, the last of which until March 31, 2024 and the Bank is negotiating presently with the Accountant General for the prolongation of their effect for an additional period.
It is noted that during 2022, a Memorandum of the Correspondence Services Bill, which would regulate the activity of the Company was published. In addition, an updated draft of Proper Conduct of Banking Business Directive was published in October 2023, determining which of the provisions of the Proper Conduct of Banking Business Directives would apply to the Correspondence Company when it starts operations.
In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.
For details regarding the requirement by the Supervisor of Banks to pay the wages of Palestinian workers by bank transfers, see "Legislation and Supervision" in the 2022 Annual Report. Due to implementing the (relatively) new directive to pay salaries to Palestinian workers by bank transfers, there has been an increase in the scope of the Group's correspondent activity with the banks operating in the Palestinian Authority. On the other hand, the withdrawal of cash for salaries has declined.

Conduct Risk

Conduct risk is the risk created by violation of fairness, decency and transparency values vis-à-vis the Bank's customers, including forbidden discrimination of customers. The risk might materialize as a result of unfair treatment of customers and the harmful exploitation of the corporation's position. The conduct risk, including fairness, decency, transparency and nondiscrimination values, is an integral part of the definition of compliance risk at the Bank, as integrated in the policy document on the matter. The Bank acts constantly to integrate these values within the array of relevant processes and increases the awareness of its employees to their importance.

Risk Factors Table

Banking corporations in Israel are required to present the risk factors in the framework of the annual report and to classify according to categories their impact on the business of the banking corporation, to the extent possible in respect to each risk factor. The Group uses a five grade evaluation scale for the rating of the impact of each risk (High, Medium-High, Medium, Low-Medium and Low).
Within the framework of risk management processes at the Discount Group and according to regulatory requirements in the matter, mapping, identification, analysis and evaluation processes are conducted for the risks to which the Group is exposed, according to an orderly Group methodology for the evaluation of the risk profile as part of the capital adequacy assessment process. At the base of the assessment, the Bank tests the implications of changes in the risk environment, in the inherent risk, in risk centers, in the quality and effectiveness of the risk management processes and in the control environment, the examination of implications from a forward looking view and more.

All these, as well as the methodology that had been formed for the assessment of the risk profile comprise, among other things, a basis for the assessment of capital requirements coinciding with to the Group's unique risk profile.
Due to the complexity of the risks discussed, as well as the ability to assess their impact, the Group uses various assessment tools, including expert assessment, risk cards, models and stress tests, which include different assumptions regarding the impact of exposure, the magnitude of future events and the probability that such events would materialize. Notwithstanding, no standardized objective grading exists for the conversion of the results received by use of the assessment tools, as stated, to the categories used in the table. It is also noted that each risk factor is tested independently of other risk factors, which are detailed in the Table.
In view of that stated above, it is emphasized that the assessment of the impact of each risk factor is a subjective assessment made by the Bank's Management, of the material risk factors and their impact, according to the unique characteristics of operations of the Discount Group, and therefore, extra care should be taken in examining the impact of the risk factor, as stated in the table, and in comparing this data with that of other banks.

Risk Factors Table

Risk factor	Risk Factor Impact	Basing the assessment
1. Risk environment[8]	High	The effects of the war and the uncertainty caused by it in the macroeconomic environment and the expectation of an economic slowdown are expected to lead to damage to borrower repayment ability, to increased market and liquidity risks, alongside a slowdown in the real estate and high-tech sectors. The Bank conducts a follow-up of the implications upon the Bank and the companies in the Group, including, the monitoring and control over risk centers affected by the different events. Moody's has announced a downgrade of the State of Israel's credit rating, with a negative outlook. The other rating agencies are also examining the credit rating of the State of Israel. Moody's has also downgraded the credit rating of the five major banks in Israel, with a negative outlook. Challenges in the competition and innovation environment, and the multitude of regulation moves and the regulatory focus on aspects of fairness, decency, transparency and privacy protection, continue. Cyber and data protection risks continue to present a threat to the financial system, inter alia, in view of their intensification on the background of the growing use of digital channels and the continuing attack attempts directed against the financial system, and stemming there from also the rise in fraud risk. In the internal risk environment, preparations for the sale of ICC and promoting innovation ventures owned by the Bank (PayBox and Greenlend).
2. Overall impact of credit risk	Medium-High	The challenges of the risk environment and the high economic uncertainty, which is dependent on developments in the fighting and government support. The economic situation may affect borrowers' repayment ability in all business lines, and particularly in real estate, small business and off-banking credit. The monitoring and control processes in the credit portfolio have been increased. The Bank is expected to continue implementation of the growth strategy, according to the strategic plan, alongside the continuing tight management and monitoring of the risk in the credit portfolio as well as adjustments to the risk appetite, as needed and in accordance with various developments and events. Concurrently, the Bank emphasizes the development of retail and business models that will support credit risk management, pricing and diverting credit activity to digital based on models.
2.1. Quality of borrowers and collaterals risk	Medium-High	The Bank conducts stringent monitoring and control at all business lines, adjustments of policy and of the risk appetite, use of advanced tool for analyzing and challenging stress testing, as part of the risk management.
2.2. Industry concentration risk	Medium	The Bank complies with the regulatory restrictions.
2.3. Borrower/groups of Borrowers concentration risk	Medium	The Group complies with the regulatory restrictions.

8 Relates to the evaluation of the risk environment impacts: the business environment, the regulatory risk environment and the internal environment.

Risk factor	Risk Factor Impact	Basing the assessment
3. Overall impact of market risks	Low-Medium	Monitoring and reporting of development of the financial risks is conducted at the Group level. Potential for increased risk due to uncertainty in the macroeconomic environment and expectations of lower interest rates during 2024. The Bank stringently manages the exposures and challenges the assumptions underlying the models that support risk management.
3.1. Interest rate risk	Low-Medium	The extent of interest exposure (economic and accounting) out of the Bank's capital is not high relative to the Bank's limits and compared to the system. In light of expectations for interest rates lowering during 2024, the risk of interest income being negatively impacted is increasing.
3.2. Inflation and exchange rate risk	Low	The CPI-linked position at the Bank grew in volume in 2023, concurrently with the rise in inflationary expectations in the markets, however, the loss that might be incurred due to a decline in the level of inflation, inter alia, in view of entry of the markets into recession, is still not material in relation to the interest risk.
3.3. Share price and credit spreads risks relating to the holding of securities	Low-Medium	The scope of the exposure to equities and tradable credit margins is not material. Nevertheless, compliance with Group limits is being monitored, while adapting them to the investment strategy and to the policy documents.
4. Liquidity risk	Low-Medium	Due to the uncertainty in the macroeconomic environment, the Bank maintains high liquidity ratios and does not nearing the limits. The Group continues to maintain strong liquidity in shekels and foreign currency. The Group applies a clear financial strategy and policy which is stringently monitored. This, alongside a continuing improvement of the tools and the models supporting risk management at Group perspective.
5. Operating risk	Medium	The Group has coped ably with the consequences of the war from the aspects of business continuity, inter alia in light of the stabilization of the move to the Discount Campus and the ability to work with mobile stations that enable flexibility and continuity of activity. Remaining are challenges of manpower competence and the needed stabilization of organizational changes. Fraud incidents continue to rise, while fraud attempts and the identification of new methods of fraud are also increasing, along with an increase in the scope of activity. Automation, digitation and implementation of computer systems processes continue. These support improvements in the control environment and in the risk management capabilities. The improvement of the Group's organizational robustness continues regarding business continuity risk management, by applying an operation perception, formation of infrastructure supporting management of BIA processes and strengthening the Group exercises program and their implementation in practice within the framework of the Iron Swords War.
6. IT risk	Medium	The Bank continues the realization of a computer plan, which is compatible with the strategic focal points and launched a technology transformation project that is expected to lead to improved performance and reduced dependence on core systems. The IT program is tested and prioritized in congruence with the strategic focal points, with continuous improvement of monitoring and control processes and the strengthening of infrastructure and technological redundancy and improvement of tools and methodologies supporting the risk management. The abundance of challenges on the background of expansion of the digital activity, integration of innovative technologies and moving activities to the cloud, while improving the infrastructure that supports risk management. The technological arrangements and the move to the Campus have been completed, including the completion of the preparation for the transfer of the computer installations as well as integration of the cyber defense in the Campus and in the current management systems.
7. Data protection and cyber risks	Medium-High[9]	Cyber threats continue with a rise in their force, ingenuity and complexity. The Group continues to allocate significant resources for the reduction of exposure, which includes: the focusing on stronger protection of the network and its components, improvement of forestallment and monitoring tools, improving the ability to contain and manage events, management of cyber risk applying to the supply chain, reducing exposure applying to money outflow routes, central

9 Evaluation of the risk impact derives mostly from the identification of risk as developing and system risk and as a derivative of an increase in their risk environment, and not on the background of identification of risks that are singular to the Group.

Risk factor	Risk Factor Impact	Basing the assessment
		management of authorization concepts, and more. A constant maintenance process is performed as well as continuing improvement of controls and the challenging thereof by different methods and emphasis was given to strengthening the monitoring capabilities over fraud activity on the Digital.
8. Legal and regulatory risk	Medium	The trend of multiple legal and regulatory directives continues, alongside many approaches from regulatory authorities that require preparation and allocation of inputs. This includes a multitude of regulatory directives for the provision of relief and assistance to populations harmed by the war.
9. Cross-border risks[10]	Medium	Continuation of the growing foreign and domestic regulation, alongside the dynamics of risk and increased enforcement. The Group continues to implement the processes to regulate the activity regarding providing banking services having foreign connections and invests in mechanization and in the introduction of changes in the Bank's systems, in support of the FATCA, CRS and QI requirements.
10. Compliance risks	Medium	Abundance of regulatory requirements in all aspects of compliance (including privacy protection, fairness and decency, aspects of competition, accessibility and securities law). Heightened enforcement and imposition of monetary sanctions for violations. The Group continues to allocate resources for improving the quality of compliance risk management and implementation of controls in a risk based approach, and for the assimilation of the compliance aspects.
11. Money Laundering and Financing of Terror risks	Medium-High	A burden of regulatory requirements alongside challenges in the implementation of the sanction regimen and international regulations, as well as infrastructure challenges. In the wake of the war, there is potential for increased risk of terrorist activity and involvement in financing terrorism under the guise of legal activity, and accordingly monitoring has been increased. Strengthening the supporting infrastructures in this field, including strengthening the capabilities of analysis and data, along with steps to enhance and improve the effectiveness of controls on the first and second lines, are at the core of the work plan, based on a multi-year plan.
12. Reputation risk	Low-Medium	Continuing to implement a focused strategic plan, while improving availability and service, and providing broad customer assistance outlines. Allocating organizational resources to improve the availability and service of the telephone channel and of the branches.
13. Strategic risk (including risk of the business model)	Medium	An increase in the business model's risks due to the challenges of the risk environment, expectation of a decrease in interest rates and the uncertainty regarding the continuation of the effects of the war. The Group continues its growth strategy and focused implementation of strategic projects and several cross-organizational projects designed to contribute to improving organizational effectiveness and to efficiency. The Group is preparing for ICC's separation. The 2024 work plan was designed under conditions of uncertainty and included sensitivity analyses for key parameters that have an impact on the Group's results.
14. Model risks[11]	Medium-High	The changes in the macro environment and the effects of the war have the potential to affect the predictability of the models. Accordingly, an in-depth review of all the material models was carried out and the effects of the war on the credit models and financial models were examined. The models field has been defined as a focused topic and, accordingly, emphasis is being placed on advancing the work plan regarding the development of models and their validation, alongside strengthening the periodic monitoring processes on the performance of the models and strengthening the second line infrastructures for independent monitoring.

As stated, the assessment of the impact of the different risks is conducted within the framework of the capital adequacy assessment process (ICAAP). Environmental and climate risks are yet to be assessed in 2023 within the framework of these processes, and accordingly, their impact is not presented in the Table.

10 Evaluation of the impact of cross-border risks was reduced from "Medium-High" to "Medium" in the second quarter of 2023, due to the continuous improvement in the quality of management and in infrastructure, as well as in the administrative focusing on the subject.

11 Evaluation of the impact of model risks was raised from "Medium" to "Medium-High" in the second quarter of 2023, in view of sharp changes in the business and macro-economic environment, which affected the forecasting quality of models. The Bank has taken action to strengthen the infrastructure of risk management, strengthen the manpower engaged in this field and accelerate the work plan.

Chapter "D" - Accounting policy and critical accounting estimates, control and procedures

Critical Accounting Policies and Critical Accounting Estimates

General

The Bank’s financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements) and according to instructions and guidelines of the Supervisor of Banks.
The level of regulation regarding the financial reporting of banking corporations is among the highest in the financial reporting field in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and sometimes even dictate the wording to be used by banking corporations. Nonetheless, there are areas where application of the accounting policy involves a high level of evaluation and assessment performed by Management of the banking corporation in the course of preparation of the financial statements.
Application by Management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, requires sometime various assumptions, evaluations and assessments that affect the reported amounts of assets and liabilities, including contingent liabilities, as well as the financial results reported by the Bank. It is possible that when the evaluations and assessments materialize in the future, their results may be different than those anticipated at the time the financial statements were prepared.
Certain of the evaluations and assessments applied involve uncertainty or sensitivity to various variables to a large extent. Such evaluations and assessments, changes in which might have a considerable effect on the reported financial results, are considered evaluations and assessments of ”critical” matters.
Management believes that the evaluations and assessments used in the preparation of the financial statements are fair and were made according to the best of its information and professional judgment.
Following is a summary review of evaluations and assessments made as regards ”critical” matters.

Allowances for expected Credit Losses (CECL)

Starting with January 1, 2022, the Bank implements the directives of the Supervisor of Banks, which require adoption in full of the accounting principles accepted by US banks with respect to current expected credit losses (CECL), as described in Note 1 D 4 regarding the accounting policy.
According to the said rules, the allowance for credit losses is computed according to the loss expected all along the life of the credit. In assessing the allowance for credit losses, significant use is being made of forward looking information reflecting reasonable and supportable forecasts regarding future economic events. Assessment of the expected loss, as stated, is based on the methodology and models developed by the Bank.
As stated, the process is based upon significant assessments involving uncertainty and on subjective estimates. Changes in assessments or estimates may have a significant impact on the allowance for credit losses presented in the Bank’s financial statements.
The Bank examines the overall adequacy of the allowance for credit losses. The said adequacy evaluation is based on discretion of Management, which, inter alia, takes into consideration the assessment methods applied in determining the allowance.
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 risks.
The structured risk attributed to the credit field has increased. The Bank expressed this increase mostly in the collective allowance model. 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.

For details regarding the accounting policy, see Note 1 D 4 to the financial statements. For details regarding the credit and its quality, see Note 31 to the financial statements. For details regarding the overall credit risk for which the Group is responsible for problematic borrowers, see above under "Structure and Developments of Assets, Liabilities, Capital and Capital Adequacy". For details regarding the credit risk management at the Bank, see "Credit risks" above in Chapter C - "Risks review" and in the document "Disclosure according to the third pillar of Basel and additional information on risks".

Contingent Liabilities

The accounting treatment of contingencies is implemented according to the U.S. Standard ASC 450 and its related guidelines, and according to the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of "Accounting for Contingencies". In assessing the required allowance, it is necessary to examine the probability of a loss and to assess its amount. These evaluations affect both the duty itself of creating an allowance for the claim and the mode and scope of the disclosure in the financial statements.
For the purpose of assessing possible losses as a result of actions filed against the Bank, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels representing them in these matters. In the nature of things, such opinions are subjective and face objective evaluation difficulties. Such difficulties grow immensely in cases of class action suits.
Accordingly, it is possible that the actual results of certain of the actions would be different from those estimated based on the opinions of Counsels. In view of the volume of actions pending against the Bank, other banks and companies in the Group, it may transpire that the non-materialization of such estimates would have a material effect on the financial results of the Discount Group.
The Bank is exposed to unasserted claims. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made the actual outcome may differ from assessment conducted prior to filing of the claim.
It should be noted that where the Bank is one of the defendants in an action, and the claimants have not attributed an amount to each of the defendants, the evaluation of the claim amount relevant to the Bank has been made to the best of ability, taking into account that consideration of the total amount might mislead and is incorrect in the circumstances, and that the evaluation does not necessarily represent the allocation as finally determined by the Court.
For details of material legal actions pending against the Bank and against other companies in the Group, see Note 26 C sections 9 and 10 to the financial statements. For details as to additional proceedings and claims settled during the year, see "Legal proceedings" in Chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof". For details regarding the criteria relating to the disclosure of legal actions and the accounting treatment adopted in their respect, see Note 1 D 17 to the financial statements.

Impairment of Available for Sale Bonds

As from January 1, 2022, the Bank is implementing the Directives of the Supervisor of Banks requiring the adoption in full of accounting principles accepted by US banks in the matter of "financial instruments - credit losses", as described in Note 1 D 4 regarding accounting policy.
According to the said rules, impairment of bonds attributed to credit losses, is recognized by way of an allowance for credit loss, while impairment attributed to other factors, not recognized by way of a credit loss allowance, is to be recognized, net of tax, in other comprehensive income.
Management of the Bank is therefore required to test and assess whether impairment should be attributed to a credit loss, as well as its amount.
In order to test whether a credit loss exists, Managements of the Bank and of the relevant subsidiaries base themselves on different characteristics of the bonds and the issuing companies thereof, such as: the ratio of loss to

the amortized cost, the credit rating of the bonds and changes that had taken place in the rating and the attribution of the impairment to an adverse change in the condition of the issuer or to a change in market condition in general, and more.

Furthermore, in assessing the allowance for credit losses, the Bank takes into consideration available relevant information regarding ability of redemption of the bonds, including data relating to past events, present conditions and supportable reasonable forecasts.

The said assessments and characteristics are largely subject to subjective considerations, and accordingly, to changes in assessments and assumptions, in the characteristics supporting them, which in essence may have a significant effect on the allowance for impairment and its classification.

For further details, and including the criteria, the fulfillment of which would require recognition of credit losses, see Note 1 D 4 to the financial statements.

Measurement of Financial Instruments according to their Fair Value

Directives of the Supervisor of Banks. The Bank implements the directive regarding Measurement of fair value based on the U.S. financial accounting standard ASC 820. Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

ASC 820 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable. These types of inputs create a fair value grading according to levels: 1, 2, and 3. For additional details, see Note 1 D 7.

Determination of the fair value of financial instruments of level 2 and level 3, is based upon estimates and assumptions relying, among other things, on subjective considerations. Accordingly, a possible deviation in the said estimates and assumptions may change the fair value of the financial instruments.

For additional details regarding the distribution of the fair value of financial assets and financial liabilities measured at fair value, based on the scale of quality determined in the Standard see Note 34 to the financial statements.

The assumptions, according to which the Bank had classified assets and liabilities to the various quality groups, as detailed above, included:

- In the highest quality group (Level 1) are included financial instruments and derivative financial instruments, traded on an active market (typified by a large number of participants and by a high trading turnover), the prices quoted thereon reflect actual market price;
- In the medium quality group (Level 2) are included financial instruments that are not traded on an active market, the fair value of which is based on quotations received from independent entities (hereinafter: Instruments, the fair value of which is determined by "pricing services"), and assessment models, all significant data used therein are observable in the market and are supported by observable market inputs. The financial instruments (including derivative instruments) the fair value of which is determined using "pricing services" include non-marketable securities denominated in Israeli currency and bonds of foreign financial institutions, corporations and governments;
- In the lowest quality group (Level 3) are included derivative financial instruments, the fair value of which is determined based on significant unobservable inputs included in the assessment model. This class includes also significant derivative financial instruments, the adjustment for credit risk in respect thereof is not based on observable inputs.

For details regarding transfers between levels of fair value hierarchies, see Note 34 G to the financial statements.

As seen from the data presented in Note 34 E 1 to the financial statements, the ratio of instruments classified to Level 3, to the total of assets and liabilities for derivative financial instruments, was 18% at December 31, 2023, compared with 21.2% at December 31, 2022.

The income on assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 34 F, amounted to NIS 4,165 million in 2023, compared to an income of NIS 2,626 million for 2022.

Estimate of fair value of securities. Securities, excluding bonds held to maturity, are stated in the balance sheet at fair value, except for shares and option warrants for which fair value is not readily available, which are stated at cost. Differences between the fair value and the stated cost of securities available for sale, are recognized in a capital reserve.

The market value of securities traded on an active market and which have a market price, represents their fair value. The stated fair value relating to securities which are not traded on an active market and which do not have a market price, is a calculated fair value as explained hereunder.

The fair value of bonds issued by foreign financial institutions, corporations and governments is based on price quotations by international providers of securities prices that are independent of the Bank, and independent of the issuing entities as well as the marketing entities. These providers are leading international companies that provide price quotation and evaluation services to hundreds of leading financial institutions around the world. For control purposes the Middle Office performs crosschecks of securities prices, as received from the provider with those published by the Bloomberg system (financial data system) and as the case may be, also to broker quotations that are not the issuers of the securities (in the case of a material change in the monthly level), which comprise an indication of the price for the execution of the transaction. Whenever differences arise between the valuation of the provider and prices quoted by brokers, the matter is brought before the control committee, which decides as to the fair value of the security.

Calculation of fair value of Israeli currency non-marketable securities is performed by the present value of future cash flows method, on the basis of the discount interest rate obtained from a quotation company (elected by the Capital Market, Insurance and Savings Division at the Ministry of Finance). For control purposes, the Middle Office performs, to the extent possible, tests which compare the resultant fair value amount with prices of other marketable securities of the same issuer or similar securities traded on the market. Furthermore, an examination is performed of the reasonableness of changes in fair value, including in relation to quotations of recent known transactions.

Estimate of fair value of derivative financial instruments. The Bank is active to a considerable extent in the derivative financial instruments field, which are presented in the financial statements on a fair value basis as different from the accrual basis. Where the derivative financial instruments are traded on an active market and have a market value, then the market value represents their fair value.

Where the derivative financial instruments are not traded on an active market and do not have a market value, fair value is assessed by means of accepted models for the pricing and revaluation, which take into account the risks inherent in the instrument, such as: the present value of future cash flows expected to be received from the instrument, the Black and Scholes model, etc.

The calculation of the fair value of derivative financial instruments, for their foreign currency component, is based on interest rates and prices prevailing in the international money markets, and with respect to their Israel currency component, on non-linked interest rates and linked interest rates, determined by the Bank's asset and liability management department and through the Bank's dealing room, as the case may be, taking into consideration market prices, liquidity and the existing trading level in the local market. The margin between the sales interest rate and the purchase interest rate comprises a subjective factor, which affects the computation of the fair value of derivative financial instruments.

The fair value of options is based, for the most part, upon the Black and Scholes Model and it is being affected by the volatility inherent (standard deviations) in exchange rates, interest rates and by the indices relevant to the option bought or written by the Bank. The volatility data of the foreign currency to Shekel exchange rate and of foreign currency to foreign currency exchange rate are determined by the Bank's dealing room according to the money markets and are supervised by the Middle Office, being compared with several sources of information.

Establishing the model to be used in computing the fair value of derivative financial instruments, the pricing methodology and the computation of fair value amount, is the responsibility of the Middle Office, serving as a factor independent of the business units that execute the transactions (hereinafter: "the factor responsible for determining fair value"), by using designated systems (hereinafter: "process of determining fair value"). For derivative financial instruments the volume of transactions therein is material, the process of determining fair value is validated and verified by the department in charge of evaluation of market and liquidity risks at the Risk Management Department, which functions at a suitable professional level and serves as a factor independent of the factor responsible for determining fair value. Validating the said process includes an examination of the compatibility of the model to the type of instrument in question, the fairness and reasonableness of the parameters used in determining fair value, the reasonableness of the resultant fair value amounts, sample examinations of the computations, etc. Validating the models used for the computation of fair value is performed at least once a year, or whenever a material change takes place in the process of determining fair value. The validation process, which mostly includes the reasonableness tests and the sample computation tests, is performed once in every quarter. In addition to the verification and validation process, control measures are being adopted by the Accounting Division in order to secure the appropriateness and fairness of the fair value of all derivative financial instruments.

An interface exists for the transfer of the results of the validation and verification between the Middle Office and the Liquidity and Market Risks Evaluation Department. In case of disagreements between the said factors, the matter will be brought for discussion in the Control Committee (a committee in the Risk Management Division, in which a representative of the Accounting Division also takes part).

In addition, the Bank performs on a current basis an assessment and examination of the risk pertaining to the process of determining fair value. Within this framework the Bank has defined a limitation whereby it would not enter into a transaction involving a new type of financial instrument in a material amount, and would not increase the amount of an existing type of instrument, unless a structured process exists in respect thereof for determining fair value at a reasonable level of assurance (hereinafter: "the exceptional instruments"). It is noted that, in general, the Bank does not engage in transactions involving instruments for which there is insufficient liquidity in the market, except for back-to-back transactions.

Notes 28 and 34 to the financial statements includes comprehensive data regarding the Bank's derivative financial instruments activity and information regarding fair value of these instruments, according to the type of instrument.

The credit risk. In measuring the fair value of a debt, including derivative instruments that had been issued by the Bank and are measured at fair value, the Bank reflects credit risk and non-performance risk. For additional details regarding the manner of assessing credit risk, see Note 1D 7 to the financial statements.

Where for the exposure, satisfactory liquid collateral exists that specifically secures the derivative instrument at a high level of legal certainty, the Bank assumes a zero inherent credit risk, and does not make adjustments to fair value for the credit quality of the counterparty.

The Bank conducts reasonableness tests with respect to assessments of credit risk, which include also the testing of exceptional ratios.

Adjustment of the credit risk relating to assets and liabilities for derivative instruments, resulted in 2023 in a loss of NIS 3 million, compared to a loss of NIS 24 million in 2022.

Details regarding the adjustment of the assets and liabilities for derivative instruments

	December 31, 2023	December 31, 2022
	in NIS millions	
Assets for derivative instruments	11,107	11,423
Adjustment for credit risk regarding assets relating to derivative instruments	(65)	(61)
Liabilities for derivative instruments	10,483	9,356
Adjustment for credit risk regarding liabilities relating to derivative instruments	(6)	(5)

In addition, the Bank performs reasonableness tests of the results obtained from the internal evaluation of changes in market spreads, and perform the necessary adjustments, as the case may be.

Employee Rights

The Bank applies U.S. accounting principles as regards employee rights. For additional details, see Note 1 D section 15. The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions.

Certain aspects regarding the implementation of the accounting policy. As stated, the use of actuarial computations requires use of statistical tool and assessments as regard the future and is based on past experience and on the limitations determined in this respect by the Bank's Management. The limitations determined by the Management are detailed in Note 1 D section 15.6 to the financial statements.

The actuarial computation is based on several parameters, including: life expectancy, retirement age of employees prior to the retirement date, the rate of employee retirement prior to the prescribed retirement date, the rate of increase in salary anticipated and the discount rate. These parameters were determined, inter-alia, based on

forecasts prepared by the actuary and the experience accumulated in the Bank. The actuarial computation was based on a computed discount rate, according to instructions of the Supervisor of Banks.
Furthermore, implementation of the accounting policy involves assessments and judgment with respect to the following matters:

- The definition of return to maturity of Israeli government bonds, relevant to the determination of the discount rate, taking into consideration, among other things, the average period to maturity of the liabilities for which the actuarial computation is made;
- Definition of the spread added to the basic return, as stated, being an assessment of the risk rate, based on relevant U.S. securities data, as defined in the instruction;
- In each year, it is required to assess the forecasted return on assets of the plan for the coming year. The difference between the computations based on the most recent assumption of return and those based on the actual return in the reported period, shall be included in other comprehensive income and taken to the statement of profit and loss according to the assessed average period of service. (It is noted in this respect, that the format of this treatment may result in certain fluctuations in the reported annual profit, including for changes in the assessment of the average service period).

Updated actuarial assessment. The Bank has ordered an updated actuarial assessment as of December 31, 2023. The actuarial assessment also includes a computation of the actuarial provision amount for severance pay that would have been required were the cap rate to be determined according to the Israeli Securities Authority's "deep market" guideline.
The actuarial assessment as of December 31, 2023, as compared to the assessment at December 31, 2022, has been mainly affected by the increase in the discounting rate. The change resulted mostly from the rise in rates of yield to maturity of CPI linked government bonds, which was partly offset by the decrease in the international margin. For additional details, see Note 1 D section 15.6 and Note 23 to the financial statements.
Presenting the actuary's assessment for perusal. The assessment of the Actuary is available for perusal on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website, together with the Bank's 2023 Annual Report (this Report).
Possible impact of changes in parameters and in assumptions. For details regarding the effect of a change of one percentage point, in the capitalization rate, in the rate of retirement and in the rate of increase in compensation, on the liability for the forecasted benefit, before the tax effect, see Note 23 C to the financial statements, section 3.2.

Examination of impairment in value of non-financial assets

The Bank's Management examines from time to time whether circumstances exist requiring provisions for impairment of non-financial assets owned by the Bank. The said evaluation, by its nature, involves assumptions and estimates which retroactively might appear biased.
Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States. For additional details regarding the said indicators, see Note 1 D 13 to the financial statements.
The written down balance of in-house software development costs amounted at December 31, 2023 to NIS 1,244 million (December 31, 2022: NIS 1,085 million).

Controls and Procedures

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Law of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.
In order to establish these declarations, the Bank has examined the principal processes of production and delivery of information related to the financial statements by the Bank's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formed, and absorbed in the work processes.
Proper Conduct of Banking Business Directive No. 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive No. 309, in the spirit of Section 404 of the Sarbanes-Oxley Law of 2002, which requires bank managements to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.
During 2023, the Bank conducted a process of validation and updating of processes and effectiveness examinations to the internal control layout over financial reporting, by means of the SOX unit established within the Accounting Division.
Based on the findings of the said examination of the effectiveness of internal control, the Bank's Management together with the President & CEO and the Bank's Chief Accountant have assessed the effectiveness of controls in the reported period over the Bank's financial reporting. On the basis of this assessment, the Bank's President & CEO and the Chief Accountant arrived to the conclusion that as of the end of the reported period, the controls and procedures regarding financial reporting are effective in order to: record, process, conclude and report the information included in the annual financial statements, according to the public reporting directives of the Supervisor of Banks and on the date prescribed by these directives.

Changes in Internal Control

During the fourth quarter ended on December 31, 2023, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably to materially affect, the Bank's internal control over financial reporting.

The Board of Directors wishes to thank the President & CEO, the members of Management, the Bank's employees and employees of the Group's companies and their management for their work towards the advancement of the Bank and the Group.

March 10, 2024	Danny Yamin Chairman of the Board of Directors	Avi Levy President & Chief Executive Officer

Internal Control over Financial Reporting

131 President & CEO's certifications
132 Chief Accountant's certification
133 Report of the Directors and Management on Internal Control over Financial Reporting

Certification

I, Avi Levy, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2023 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes according to accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the audit committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

March 10, 2024

Avi Levy,
President & Chief
Executive Officer

Certification

I, Yossi Beressi, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2023 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes according to accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the audit committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

March 10, 2024

Yossi Beressi
Senior Executive Vice
President
Chief Accountant

Report of the Directors and Management on Internal Control over Financial Reporting

The Board of Directors and Management of Israel Discount Bank Ltd. (hereinafter - "the Bank") are responsible for establishing and maintaining effective internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"). The Bank's internal control system has been designed to provide reasonable assurance to the Board of Directors and Management regarding the preparation and the fair presentation of financial statements published according to generally accepted accounting principles in Israel and directives and guidelines of the Supervisor of Banks. Regardless of the quality of their level of design, all internal control systems have inherent limitations. Therefore, even if these systems are determined effective, they can provide only a reasonable degree of assurance regarding the preparation and presentation of the financial report.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are made according to authorization of Management, assets are protected and the accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, takes the necessary actions to ensure that communication and information lanes are effective and monitor performance, including performance of internal control procedures.

Management, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2023, based on the framework set forth in the Internal Control model of the Committee Sponsoring Organizations of the Treadway Commission (COSO) since 2013. Based on that assessment, Management believes that as of December 31, 2023, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2023 has been audited by the Bank's independent auditors, Messrs. Somekh Chaikin and Ziv Haft, Certified Public Accountants, as stated in their report presented on pp. 137-138, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2023.

Danny Yamin Chairman of the Board of Directors	Avi Levy President & Chief Executive Officer	Yossi Beressi Senior Executive Vice President Chief Accountant	March 10, 2024

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KPMG

Somekh Chaikin

BDO Ziv Haft

Report of the independent auditors to the shareholders of Israel Discount Bank Ltd. - According to the public reporting directive of the Supervisor of Banks regarding internal control over financial reporting

We have audited the internal control over financial reporting of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over the attached financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

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

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

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

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

Somekh Chaikin

We have also audited, according to accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the Balance sheets – of the Bank and consolidated – as at December 31, 2023 and 2022, and the statements of profit and loss, the Statements of Comprehensive income, the Statements of Changes in Shareholders Equity and the Statements of Cash Flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2023, and our report dated March 10, 2024, expressed an unqualified opinion on these financial statements as well as calling attention to Note 26 C section 10, regarding claims that cannot be estimated.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 10, 2024

Auditor's report to the Shareholders' of Israel Discount Bank Ltd. - Annual Financial Statements

We have audited the financial statements of Israel Discount Bank Limited (hereinafter: "the Bank") and the consolidated financial statements of the Bank and consolidated: Balance sheets as at December 31, 2023 and December 31, 2022, statements of profit and loss, statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for the three years, the last of which ended December 31, 2023. These financial statements are the responsibility of the Bank's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2023 and 2022, and the results of operations, the changes in shareholders' equity and cash flows - of the Bank and consolidated - for the three years the last of which ended December 31, 2023, according to generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared according to the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we call attention to the Note 26 C section 10 regarding claims that cannot be estimated.

We have also audited according to standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Bank over financial reporting as of December 31, 2023, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report of March 10, 2024, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Key audit matters

The key audit matters set forth below are matters that have been brought to the attention, or that are required to be brought to the attention, of the Bank's Board of Directors and that, in our professional discretion, were very significant in the audit of the consolidated financial statements for the current period. These matters include, inter alia, any matter that: (1) relates, or may relate, to material items or disclosures in the financial statements, and (2) our discretion regarding which was challenging, subjective or particularly complex. A response to these matters has been provided within the framework of our audit and the formulation of our opinion on the consolidated financial statements in their entirety. The attention drawn to these matters below does not alter our opinion on the consolidated financial statements in their entirety and by doing so we are not providing a separate opinion on these matters or on the items or disclosures to which they relate.

KPMG

Somekh Chaikin

BDO Ziv Haft

Allowance for credit losses

Why the matter has been determined to be a key audit matter

According to the description in Notes 1, 13, and 31 to the consolidated financial statements, the allowance for credit losses for balance sheet and off-balance-sheet credit to the public in the Bank's consolidated financial statements amounts to approx. NIS 4,782 million as of December 31, 2023 and it includes an allowance on a specific basis and allowance on a collective basis for credit to the public risk.

In assessing the amount of the credit loss allowance, the Bank estimates the expected loss in the credit portfolio. The process of estimating this loss is based upon significant assessments involving uncertainty and on subjective estimates, both at the stage of determining the required classification of the debts and at the stage of measuring the credit loss allowance.

With effect from January 1, 2022, the Bank applies the US GAAP with regard to current expected credit losses (CECL) – ASC 326. In calculating the allowance on a collective basis, an estimate of the losses expected over the lifetime of the credit is made in accordance with methodology and risk ratings-based models (such as probability of default and loss given default), within the framework of which the amount of the expected loss in the event of default materializing is estimated. The models are based, inter alia, on historical data and other adjustments needed to forecast the current expected credit losses.

Classification of a customer's indebtedness as a performing debt or as a problematic debt also has an effect on the level of the allowance for credit losses.

In addition, the Bank also includes an allowance for credit losses that is computed on a specific basis with respect to certain debts in accordance with its policy, basing this on an assessment of the collectibility from the particular borrower.

The principal estimates that serve as a basis for calculating the allowance for credit losses

- Determining the estimates in the models in which the methodology, assumptions and data, and determining other adjustments, is subject to significant discretion in their selection and in their construction.
- At the time of identifying and classifying the debts, discretion is exercised in order to identify problematic debts according to tests that could testify to a debt becoming problematic, estimate the possible or existing damage to the borrower's primary repayment source, or the existence of expected cash flows of the borrower to repay the debt in full and on time, as well as evaluation of other financial data of the borrower which may indicate signs of weaknesses or potential weaknesses in the repayment ability of the borrower.
- The classification of a debt as problematic will have an effect, as stated, on the level of the allowance thereof.
- In computing the allowance on a specific basis, discretion is used in determining the amount expected to be repaid by the borrower, such as, determination of the anticipated amount of future cash flows from business operations of the borrower available to serve his debt, and/or the realization value of collateral and guarantees.
- We have identified the aforesaid estimates, which serve as the basis for computing the allowance for credit losses, as a key audit matter. A change in these estimates or assessments might have a significant impact on the allowance for credit losses and is presented in the Bank's financial statements.

Auditing the allowance for credit losses requires the auditor to exercise judgment as well as to use his knowledge and experience in examining the reasonableness of the use of the models, the computations and the adjustments that serve the Management in determining the adequacy of the debt classification and the estimate of the allowance for the credit losses.

The response given to the key audit matter

Set out below are the main procedures performed in connection with this key audit matter within the framework of our audit:

We have examined the work processes for computing the allowance for credit losses and the effectiveness of the planning and operation of certain internal audits over the financial reporting, relating to determining the estimate of the allowance, including controls on the following topics:

- Examining the suitability of the methodology used to determine the allowance for credit losses;
- Examining the adequacy of the basic data used to calculate the allowance for credit losses;
- Identification of debts having potential characteristics of problematic debts, based on criteria defined by the Bank;
- Classification of the debts according to guidelines of the Supervisor of Bank;
- Analyzing the reasonableness of the allowance for credit losses in its entirety.

We have conducted establishing procedures for the testing of the allowance for credit losses, based on presentations obtained.

These procedures included among other things:

- Reviewing the methodology for determining the allowance and its suitability to the accounting principles applicable to the Bank and with the effects of the Bank's economic and regulatory environment;
- Sample testing the computations performed by the Bank to determine the adequacy of using the various models;
- Testing the completeness and accuracy of the information and data used in the models for the computation of the collective allowance assessment;
- Testing the adequacy of the classification and the allowance for a sample of debts;
- Testing the reasonableness of the adequacy of the whole allowance for credit losses.

The joint auditors of the Bank are BDO Ziv Haft, CPA, since 2000*, and KPMG Somekh Chaikin, CPA, since 1998.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 10, 2024

* The firm of Haft & Haft, which merged into the firm of Ziv Haft in 2000, has served as the independent auditors of the Bank since 1935.

Statement of Profit and Loss for the Year ended December 31

		Consolidated		
	Notes	2023	2022	2021
		in NIS millions		
Interest income		20,712	11,700	7,491
Interest expenses		9,776	3,007	962
Net interest income	**2**	**10,936**	**8,693**	**6,529**
Credit loss expenses (expenses release)	13,31	1,502	407	(693)
Net interest income after credit loss expenses		**9,434**	**8,286**	**7,222**
Non-interest Income				
Non-interest financing income	3	1,218	417	765
Fees and commissions	4	3,495	3,404	3,125
Other income	5	425	430	72
Total non-interest income		**5,138**	**4,251**	**3,962**
Operating and other Expenses				
Salaries and related expenses	6	3,850	3,568	3,468
Maintenance and depreciation of buildings and equipment	16	1,397	1,232	1,187
Other expenses	7	2,719	2,417	2,203
Total operating and other expenses		**7,966**	**7,217**	**6,858**
Profit before taxes		6,606	5,320	4,326
Provision for taxes on profit	8	2,316	1,806	1,516
Profit after taxes		**4,290**	**3,514**	**2,810**
Bank’s share in profit (loss) of associates, net of tax effect	15	(11)	27	20
Net profit:				
Before attribution to non-controlling interests		4,279	3,541	2,830
Attributed to the non-controlling interests		(87)	(46)	(57)
Net Profit Attributed to the Bank's Shareholders		**4,192**	**3,495**	**2,773**
Earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**9**	**3.39**	**2.87**	**2.38**

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

Date of approval of the financial statements:	Danny Yamin	Avi Levy	Yossi Beressi
	Chairman of the Board of Directors	President & Chief Executive Officer	Senior Executive Vice President, Chief Accountant
March 10, 2024			

Statement of Profit and Loss for the Year ended December 31 (continued)

		The Bank		
	Notes	2023	2022	2021
		in NIS millions		
Interest income		13,371	7,178	4,454
Interest expenses		6,881	2,091	669
Net interest income	**2**	**6,490**	**5,087**	**3,785**
Credit loss expenses (expenses release)	13,31	869	161	(590)
Net interest income after credit loss expenses		**5,621**	**4,926**	**4,375**
Non-interest Income				
Non-interest financing income	3	1,056	153	349
Fees and commissions	4	1,329	1,354	1,263
Other income	5	97	500	138
Total non-interest income		**2,482**	**2,007**	**1,750**
Operating and other Expenses				
Salaries and related expenses	6	2,163	2,010	2,043
Maintenance and depreciation of buildings and equipment	16	899	795	761
Other expenses	7	875	734	856
Total operating and other expenses		**3,937**	**3,539**	**3,660**
Profit before taxes		4,166	3,394	2,465
Provision for taxes on profit	8	1,438	1,102	850
Profit after taxes		**2,728**	**2,292**	**1,615**
Bank’s share in profit of investee companies, net of tax effect	15	1,464	1,203	1,158
Net profit attributed to bank's shareholders		**4,192**	**3,495**	**2,773**

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

Consolidated Statement of Comprehensive Income (Loss) for the year ended December 31

	2023	2022	2021
	in NIS millions		
Net profit before attribution to non-controlling interests	4,279	3,541	2,830
Net profit attributed to non-controlling interests	(87)	(46)	(57)
Net profit attributed to the Bank's shareholders	**4,192**	**3,495**	**2,773**
Other comprehensive income (loss), before taxes:			
Net adjustments, for presentation of available-for-sale bonds at fair value(3)	323	(2,317)	(352)
Adjustments from translation of financial statements	148	484	(113)
Adjustments of liabilities for employee benefits(2)	122	548	(28)
Net income (loss) on cash flows hedge	16	(27)	(3)
Other comprehensive income (loss), before taxes	**609**	**(1,312)**	**(496)**
Related tax effect	(152)	578	122
Other comprehensive income (loss), before attribution to non-controlling interests, after taxes	457	(734)	(374)
Other comprehensive income (loss) , attributed to non-controlling interests	(3)	4	3
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	**460**	**(738)**	**(377)**
Comprehensive income, before attribution to non-controlling interests	4,736	2,807	2,456
Comprehensive income, attributed to non-controlling interests	(84)	(50)	(60)
Comprehensive income, attributed to the Bank's shareholders(1)	**4,652**	**2,757**	**2,396**

Footnotes:

(1) See Note 10.

(2) Reflects mostly adjustments for actuarial assessments as of the end of the period of defined benefits pension plans and amortization of amounts recorded in the past in other comprehensive income.

(3) See Note 12 M.

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

Balance sheet as at December 31

		Consolidated		The Bank	
	Notes	2023	2022	2023	2022
		in NIS millions			
Assets					
Cash and deposits with banks	11, 27	51,115	65,713	45,441	53,675
Securities					
Held-to-maturity bonds		13,179	14,847	8,012	10,022
Available- for- sale bonds		36,450	25,858	24,832	15,066
Not for trading shares		1,899	1,767	150	139
Trading securities		7,740	2,322	7,581	2,192
Total Securities (of which: 26,346, 16,359, 17,920, 12,712 respectively, pledged to lenders)	**12,27**	**59,268**	**44,794**	**40,575**	**27,419**
Securities borrowed or purchased under agreements to resell		851	857	851	857
Credit to the public	13,31	262,941	244,288	172,728	160,002
Provision for credit loss	13,31	(4,214)	(3,209)	(2,523)	(1,880)
Net credit to the public		**258,727**	**241,079**	**170,205**	**158,122**
Credit to Governments	14	3,073	2,599	3,073	2,597
Investment in investee companies (consolidated – associates)	15	471	486	14,784	12,852
Buildings and equipment	16	4,535	3,904	2,843	2,387
Intangible assets and goodwill	17	161	162	-	-
Assets for derivative instruments	28	11,106	11,420	10,359	10,498
Other assets	18	6,417	5,740	2,760	2,340
Total Assets		**395,724**	**376,754**	**290,891**	**270,747**
Liabilities and Equity					
Deposits from the public	19	297,597	292,293	224,435	217,419
Deposits from banks	20	11,328	15,376	6,189	9,831
Deposits from the Government		76	117	-	1
Securities lent or sold under agreements to repurchase		12,642	3,739	12,642	3,739
Bonds and Subordinated debt notes	21	15,491	12,308	3,097	192
Liabilities for derivative instruments	28	10,469	9,348	9,823	8,530
Other liabilities[(1)]	22	18,883	18,095	6,231	6,155
Total liabilities		**366,486**	**351,276**	**262,417**	**245,867**
Equity capital attributed to the Bank's shareholders	24	28,474	24,880	28,474	24,880
Non-controlling rights in consolidated companies		764	598	-	-
Total equity		**29,238**	**25,478**	**28,474**	**24,880**
Total Liabilities and Equity		**395,724**	**376,754**	**290,891**	**270,747**

Footnote:

(1) Of which NIS 529 million and NIS 424 million in the consolidated, and NIS 420 million and NIS 336 million in the bank, as of December 31, 2023, and December 31, 2022, provision for credit loss for off-balance sheet credit instruments. See Note 31 (E).

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

Statement of Changes in Shareholders' Equity

		Capital reserves								
	Paid up share capital	Share premium	Benefit in respect of share-based payment transactions	Other	Total paid up share capital and reserves	Accumulative other comprehensive loss	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	in NIS millions									
Balance at December 31, 2020	676	4,174	-	209	5,059	(897)	15,020	19,182	545	19,727
Net Profit for the year	-	-	-	-	-	-	2,773	2,773	57	2,830
Dividend paid	-	-	-	-	-	-	(144)	(144)	-	(144)
A decrease in the rate of holding in a subsidiary company, with no loss of control	-	-	-	49	49	-	-	49	58	107
Transactions with minority	-	-	-	-	-	-	-	-	2	2
Other comprehensive loss, net after tax effect	-	-	-	-	-	(377)	-	(377)	3	(374)
Balance at December 31, 2021	**676**	**4,174**	**-**	**258**	**5,108**	**(1,274)**	**17,649**	**21,483**	**665**	**22,148**
Adjustment to the opening balance, net of tax due to the effect of the initial application[1]	-	-	-	-	-	-	(139)	(139)	-	(139)
Net Profit for the year	-	-	-	-	-	-	3,495	3,495	46	3,541
Dividend paid	-	-	-	-	-	-	(617)	(617)	-	(617)
Transactions with minority	-	-	-	(5)	(5)	-	-	(5)	(2)	(7)
Issue of Shares[2]	7	1,391	-	-	1,398	-	-	1,398	-	1,398
Benefit for share based payment transactions	-	-	3	-	3	-	-	3	3	6
Dividend to non-controlling interests in consolidated companies	-	-	-	-	-	-	-	-	(118)	(118)
Other comprehensive loss, net after tax effect	-	-	-	-	-	(738)	-	(738)	4	(734)
Balance at December 31, 2022	**683**	**5,565**	**3**	**253**	**6,504**	**(2,012)**	**20,388**	**24,880**	**598**	**25,478**
Changes in 2023:										
Adjustment to the opening balance, net of tax due to the effect of the initial application[3]	-	-	-	-	-	-	(21)	(21)	(10)	(31)
Net Profit for the year	-	-	-	-	-	-	4,192	4,192	87	4,279
Dividend paid	-	-	-	-	-	-	(1,047)	(1,047)	-	(1,047)
Minority share in shareholders' loans in a consolidated company	-	-	-	-	-	-	-	-	40	40
Benefit for share based payment transactions	-	-	10	-	10	-	-	10	3	13
Dividend to non-controlling interests in consolidated companies	-	-	-	-	-	-	-	-	(21)	(21)
Minority rights in a subsidiary established during the reporting period	-	-	-	-	-	-	-	-	70	70
Other comprehensive income, net after tax effect	-	-	-	-	-	460	-	460	(3)	457
Balance at December 31, 2023	**683**	**5,565**	**13**	**253**	**6,514**	**(1,552)**	**23,512**	**28,474**	**764**	**29,238**

Footnotes:

(1) Cumulative effect of the initial implementation of US GAAP regarding current expected credit losses.

(2) See note 24 a.

(3) Cumulative effect of the initial implementation in a subsidiary of US GAAP regarding current expected credit losses, See Note 1C5(1).

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

Statement of Cash Flows for the year ended December 31

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	in NIS millions					
Cash Flows from Operating (to Operating) Activities						
Net profit before attribution to non-controlling interests in consolidated companies	4,279	3,541	2,830	4,192	3,495	2,773
Adjustments necessary to present cash flows from current operations:						
Bank's share in undistributed (profits) loss of investee companies (consolidated – associates)	11	(27)	(28)	(1,619)	(1,304)	(1,244)
Depreciation of buildings and equipment (including impairment in value)	623	579	538	385	366	343
Provision for impairment in value of securities	105	60	102	24	35	69
Credit expenses (reducing expenses) release	1,502	407	(693)	869	161	(590)
Gain on sale of credit portfolio, net	-	(5)	-	-	(2)	-
Profit on sale of available-for-sale bonds and shares not for trading	103	(47)	(548)	142	8	(193)
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	(13)	(88)	28	(12)	(97)	29
Non realized loss (gain) on adjustment to fair value of shares no for trading	(71)	28	(66)	(4)	(57)	(67)
Gain from realization at an investment in investee companies (consolidated – associates)	-	(15)	(12)	-	-	-
Gain on realization of buildings and equipment	(415)	(421)	(52)	(1)	(415)	(52)
Benefit for share based payment transactions	13	6	-	10	3	-
Net deferred taxes	79	(433)	366	(81)	30	345
Severance pay – increase (decrease) in excess of provision over the deposits	(39)	(370)	(20)	(81)	(248)	(33)
Net change in current assets:						
Assets for derivative instruments	314	(5,898)	878	139	(5,275)	508
Trading securities	(5,498)	(1,142)	28	(5,471)	(1,094)	49
Other assets	(790)	908	99	(425)	732	44
Effect of changes in exchange rate on cash and cash equivalent balances	53	(282)	114	43	(353)	139
Accrual differences included in investment and financing activities	(353)	(1,252)	1,270	(197)	(317)	756
Net change in current liabilities:						
Liabilities for derivative instruments	1,121	3,025	(1,042)	1,293	2,565	(615)
Other liabilities	848	386	665	165	(877)	(1,565)
Adjustments for exchange rate differences on current assets and liabilities	123	68	(27)	-	-	-
Dividends received from investee companies (consolidated – associates)	18	26	27	59	311	143
Net Cash Flows from Operating (to Operating) Activities	**2,013**	**(946)**	**4,457**	**(570)**	**(2,219)**	**839**

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

Statement of Cash Flows for the year ended December 31 (continued)

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	in NIS millions					
Cash Flows to Investing Activities						
Net change in Deposits with banks	(58)	(99)	310	(538)	(2,274)	(479)
Net change in net credit to the public	(5,594)	(18,106)	(11,604)	(7,820)	(14,988)	(8,577)
Net change in Credit to the Governments	4,351	2,831	2,060	4,349	2,805	2,063
Net change in Securities borrowed or purchased under agreements to resell	6	350	(133)	6	350	(133)
Acquisition of held-to-maturity bonds	(511)	(1,143)	(2,921)	-	(298)	(1,194)
Proceeds from redemption of held-to-maturity bonds	2,255	1,033	391	1,869	575	211
Purchase of available-for-sale bonds and shares not for trading	(24,178)	(16,069)	(17,485)	(21,028)	(13,182)	(12,257)
Proceeds of sale of available-for-sale bonds and shares not for trading	10,431	12,981	12,999	8,828	11,251	10,690
Purchased credit portfolios	(18,775)	(14,165)	(12,504)	(10,462)	(7,585)	(7,502)
Gain on sale of credit portfolio	103	1,511	996	96	1,023	847
Proceeds of redemption of available-for-sale bonds	3,440	3,971	3,404	2,690	2,687	384
Investment in investee companies (consolidated – associates)	(3)	(24)	(123)	(158)	-	-
Proceeds of the sale of investments in associates	-	26	23	-	-	-
Investment in deferred debt notes of a subsidiary company	-	-	-	-	(543)	(323)
Proceeds of redemption of a subordinated debt note issued by a subsidiary company.	-	-	-	-	110	94
Acquisition of buildings and equipment	(1,194)	(1,064)	(977)	(783)	(677)	(566)
Proceeds from sale of buildings and equipment	424	521	61	4	510	61
Net Cash Flows to Investing Activities	**(29,303)**	**(27,446)**	**(25,503)**	**(22,947)**	**(20,236)**	**(16,681)**
Cash Flows from Financing Activities						
Net change in Deposits from banks	(4,048)	2,842	(573)	(3,642)	859	3,133
Net change in Deposits from the public	6,211	29,701	34,388	7,908	25,761	26,065
Net change in Deposits from the Government	(41)	(229)	3	(1)	(100)	(25)
Net change in Securities borrowed or purchased under agreements to resell	8,903	3,739	(161)	8,903	3,739	-
Issuance of subordinated debt notes	4,671	2,197	5,785	2,717	-	-
Payments for redemption of principal amounts in a financial lease	(1)	-	-	-	-	-
Redemption of subordinated debt notes	(1,952)	(5,220)	(1,032)	(50)	(3,142)	(292)
Issue of Shares	-	1,398	-	-	1,398	-
Dividend paid to the shareholders	(1,047)	(617)	(144)	(1,047)	(617)	(144)
Dividend to non-controlling interests	(21)	(118)	-	-	-	-
Net cash flows from Financing Activities	**12,675**	**33,693**	**38,266**	**14,788**	**27,898**	**28,737**
Increase (decrease) in cash	(14,615)	5,301	17,220	(8,729)	5,443	12,895
Cash balance at beginning of period	65,252	59,277	42,265	50,039	44,243	31,487
Effect of changes in exchange rate on cash and cash equivalent balances	(41)	674	(208)	(43)	353	(139)
Cash balance at end of period	**50,596**	**65,252**	**59,277**	**41,267**	**50,039**	**44,243**
Interest and taxes paid and/or received						
Interest received	19,818	10,318	7,258	12,406	6,184	4,378
Interest paid	(7,773)	(2,110)	(766)	(5,058)	(1,562)	(593)
Dividends received	30	41	37	61	314	143
Taxes on income paid	(2,444)	(1,480)	(1,033)	(1,751)	(743)	(619)
Taxes on income received	209	279	127	140	201	72

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

Appendix B - Non-cash Asset and Liability Activity during the Reported year

	2023	2022	2021
	in NIS millions		
The Bank:			
Income from sale of rights in Visa Europe	46	69	28
Purchase of fixed assets	61	18	4
Lending of securities	(409)	267	1,746
Consolidated:			
Recognition of a right-of-use asset in consideration for a financial lease	8	-	-
Recognition of a right-of-use asset in consideration for a leasing liability	83	588	107
Purchase (sale) of fixed assets	166	94	20
Lending of securities	(290)	330	1,883

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

Notes to the Financial Statements

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1. Significant Accounting Policies

A. General

1) Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel.
2) The financial statements are prepared according to directives and guidelines of the Supervisor of Banks on the preparation of a banking corporation's annual financial statements.
3) The Notes to the financial statements relate to the Bank’s financial statements and to the consolidated financial statements of the Bank and its subsidiaries, except where it states that the note relates to the Bank only, or to the consolidated statements only.
4) The financial statements were approved for publication by the Bank’s Board of Directors on March 10, 2024.

B. Definitions

In these financial statements –

International Financial Reporting Standards (hereinafter: "IFRS") – standards and interpretations adopted by the International Accounting Standards Board (IASB) that include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including interpretations of such standards determined by the International Financial Reporting Interpretation Committee (IFRIC), or interpretations determined by the Standing Interpretation Committee (SIC), respectively.

Generally Accepted Accounting Principles by banks in the U.S. – Accounting principles which U.S. banks traded in the U.S. are required to adopt according to a hierarchy determined by the U.S. Financial Accounting Standard ASC 105-10 (FAS 168). In addition, the Supervisor of Banks has clarified that despite the hierarchy determined by FAS 168, unless the bank supervision authorities in the United States take a different position with regard to the manner of implementing the rules, which then shall be deemed a Generally Accepted Accounting Principle by banks in the U.S..

"Interested party" and "Related party" - within their meaning in section 80 of the Reporting to the Public Directives.

"Consolidated companies" - Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Bank.

"Associates" - companies, other than consolidated companies and including partnerships, the investment in which is included in the financial statements, either directly or indirectly, on the equity basis.

"Investee companies" - consolidated companies and associates.

"CPI" or “Index” - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

C. Basis for the preparation of the financial statements

1. Principles of financial reporting

The Bank's financial statements are prepared according to the provisions of the Reporting to the Public Directive of the Supervisor of Banks. In most of the subjects, these instructions are based on accounting principles accepted by U.S. banks (US GAAP).

2. Functional Currency and Presentation Currency

The financial statements are presented in New Israel Shekels (NIS), which is the Bank`s functional currency, being rounded off to the nearest NIS million, except where otherwise stated. The NIS is the currency representing the principal economic environment in which the Bank operates. For details on the functional currencies of banking overseas branches, see section D 1 below.

3. Basis of measurement

The financial statements have been prepared on the basis of historical cost except for assets and liabilities, which are measured according to the fair value model or, in respect of which another measurement basis had been indicated.

4. Use of estimates

In preparing the financial statements, the Management of the Bank and of the investee companies are required to use discretion and apply estimates, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such estimates. Upon the formation of accounting estimates applied in the preparation of financial statements, the Management of the Bank and of the investee companies are required to make assumptions on circumstances and events involving significant uncertainty. When considering such estimates, the Managements of the Bank and of the investee companies base their selves upon past experience, various facts, external factors and reasonable assumptions according to the circumstances applying to each estimate.

The estimates as well as the underlying assumptions are being reviewed on a current basis. Changes in accounting estimates are recognized in the period in which the estimates were changed and in each affected future period.

1. Significant Accounting Policies (continued)

5. **Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks**

Starting with the period beginning January 1, 2023, accounting standards and instructions are implemented as detailed hereunder:

(1) Allowances for current expected credit losses (CECL) (see section 1 below) – at ICC.

Following is a description of the nature of changes made to the accounting policy applied in these financial statements, as well as a description of the manner and effect of the initial implementation, if at all:

(1) Adoption of updates to accounting principles accepted by US banks – allowances for credit loss and additional instructions – at ICC

ICC implements the new rules as from January 1, 2023. The increase in the allowance for credit losses was recognized in retained earnings at January 1, 2023, and affected the current business results.

Details on the effect of the initial implementation at ICC are presented hereunder[1]:

	Audited	Unaudited	
	December 31, 2022	Effect of implementation of CECL	January 1, 2023
	In NIS millions		
Balance			
Allowance for Credit Losses:	347	50	397
Of which: credit loss allowance – private individuals	320	34	354
Of which: credit loss allowance – commercial portfolio	24	16	40
Common equity			
Retained earnings balance, before the tax effect	2,133	(50)	2,083
Tax effect	-	16	16
Retained earnings balance, net of the tax effect	**2,133**	**(34)**	**2,099**

Footnote:
(1) As presented in ICC's financial statements.

D. Accounting policy applied in the preparation of the financial statements

1. **Foreign currency and linkage**

Foreign currency transactions. At date of recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss deriving from such transaction are translated, at date of initial recognition, to the Bank's functional currency according to the exchange rate in effect on date of the transaction. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency according to the exchange rate ruling on that date.

Non-financial assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate ruling on the date on which fair value has been determined. Non-financial items stated in foreign currency and measured according to historical cost are translated according to the exchange rate ruling at the date of the transaction.

Profits or losses on translation of transactions in foreign currency, which stem from fluctuations of the currencies in the period between the date of the transactions and the date of settlement/balance sheet date, are recognized in the statement of profit and loss as translation differences profits or losses (non-interest financing income), excluding:

- Changes in fair value of components included in the evaluation of the effectiveness of hedge for a hedge instrument hedging a net investment in foreign operations or hedging cash flows;
- Exchange rate differences for items comprising a part of a net investment.

Foreign activity. Assets and liabilities of foreign activities, including goodwill and adjustments to fair value made upon acquisition, are translated into NIS on the basis of the exchange rates ruling at the reporting date. Income and expenses as well as the profits and losses of foreign activities are translated into NIS on the basis of exchange rates ruling at dates of the transactions. Exchange rate differences on translation are recognized in other comprehensive income and presented under "financial statements translation adjustments".

Upon the realization of a foreign operation, the cumulative amount of exchange rate differences relating to that foreign operation, which had been recognized in other comprehensive income, are reclassified to the statement of profit and loss in the period in which the profit or loss from the realization of the foreign operation is recognized.

1. Significant Accounting Policies (continued)

Overseas banking branches. The banking branch Bancorp is classified as foreign operations the functional currency of which is different from the shekel.

Details on representative rates of exchange and the CPI and their annual rates of change

				Annual rate of change		
	2023	2022	2021	2023	2022	2021
CPI (in points)[1]:						
Known at balance sheet month	105.1	101.7	96.6	3.3	5.3	2.4
For the balance sheet month	105.0	102.0	96.9	2.9	5.3	2.9
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.627	3.519	3.110	3.1	13.2	(3.3)
Euro	4.012	3.753	3.519	6.9	6.6	(10.8)

Footnote:

(1) Presented according to the 2022 base index

2. **Principles of consolidation and the implementation of the equity method**

2.1 **Goodwill.** The Bank recognizes goodwill at acquisition date on the basis of the fair value of the consideration given, including amounts recognized for any rights that do not confer control in the acquired entity, as well as the fair value at acquisition date of capital rights in the acquired entity held previously by the purchaser, after deduction of the net amount attributed at acquisition date to identifiable acquired assets and accepted liabilities.

2.2 **Subsidiary companies.** These are entities controlled by the Bank, the financial statements of which are consolidated with those of the Bank from date of obtaining control until control is discontinued.

Non-controlling interests. These are rights representing the equity capital of a subsidiary company which may not be attributed, directly or indirectly, to the parent company and which include additional components, to the extent existing which are classified to equity. Non-controlling interests are measured at fair value at date of the business combination.

Attribution of comprehensive income to shareholders. Profit or losses and any component of other comprehensive income are attributed to the Bank's shareholders and to the non-controlling right holders in consolidated subsidiaries therein. Total profit and other comprehensive income are attributed to the Bank's shareholders and to the non-controlling right holders therein even if, as a result, the outstanding balance of the non-controlling interests will be negative.

Transactions with non-controlling right holders while maintaining control. Transactions with non-controlling right holders while maintaining control are treated as capital transactions. The difference between the consideration received or paid and the change in the non-controlling interests in consolidated subsidiaries is charged to the owners' share of the Bank, directly to capital.

2.3 **Investments in associates.** Associates are entities in which the Bank has a material influence over their financial and operational policies, though not control. Investments in associates are treated by the equity method and are initially recognized at cost. The cost of investment includes transaction costs. The consolidated financial statements include the share of the Group in income and expenses, in the profit or loss and in other comprehensive income of associates treated by the equity method, after adjustments required to modify the accounting policy to that of the Group from date on which material influence has been obtained and until the date on which material influence no longer exist. It is clarified that the Bank does not make adjustments to accounting policies adopted by the public reporting directives implemented by a non-financial affiliate, which applies the IFRS rules.

2.4 **Transactions eliminated upon consolidation.** Intercompany balances within the Group and unrealized income and expenses stemming from intercompany transactions, were eliminated upon consolidation of the financial statements. Unrealized profits derived from transactions with associates were eliminated against the investment according to the rights of the Group in the associates. Unrealized losses were eliminated in the same manner in which unrealized profits have been eliminated, as long as no evidence of impairment exists.

2.5 **The treatment in the Bank's standalone financial statements.** In preparing the standalone financial statements, the Bank is treating investee companies by the equity method of accounting. This, according to directives and guidelines of the Supervisor of Banks. The Bank's standalone financial statements include the financial statements of property and service companies wholly owned by the Bank, and which assets are mostly used by the Bank.

1. Significant Accounting Policies (continued)

3. The basis of recognition of income and expenses

3.1 Income and interest expenses are included on an accrual basis, except for interest accrued on problematic debts classified as not occurring interest income debts which is recognized on cash basis, when there is no doubt that the remaining recorded amount of the non-accruing debt will be collected. In cases where such doubt exists, all amounts collected serve to reduce the outstanding balance of the loan. Furthermore, interest on amounts in arrear for housing loans is recognized on the basis of actual collection.

3.2 Commission income for the granting of services are recognized in the Statement of profit and loss upon accrual of the Bank's entitlement to such income. Certain fees and commissions, such as commission for guarantees and certain commission relating to project financing, are recognized on a pro-rata basis over the period of the transaction.

3.3 In hybrid capital instruments, which include a structured step-up redemption, the interest rates used to compute the interest cost are the interest rates in effect prior to the step-up, based on Management's evaluation that the instruments would be redeemed at date of increase in the interest rate.

3.4 **Fees and commissions on the setting-up of credit facilities.** Fees and commissions charged upon the setting-up of credit facilities, except for loans for periods of up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the period of the loan as a yield adjustment. Commission income, as stated, is recognized by the effective interest method and is reported as part of interest income.

3.5 **Credit allocation fees and commissions.** Credit allocation fees and commissions are treated according to the probability of the commitment to grant credit being realized. Where the probability is remote, the commission is recognized on a "straight-line" basis over the period of the commitment, otherwise, the Bank defers recognition of such commission income until date of realization of the commitment or until date of expiry thereof, whichever is earlier. Where the commitment has been realized, then the commission income is recognized by way of adjustment of the yield over the lifetime of the loan, as stated above. Where the commitment expires without being realized, the fees and commissions are recognized on date of expiry and are reported as part of commission income. In this matter, the Bank assumes that the probability of the commitments being realized is not remote.

3.6 **Changes in terms of loans.** In cases of refinancing or of restructuring of non-problematic loans, the Bank examines whether the debt terms had been changed so that they are advantageous to the Bank, at least as the terms of similar debt instruments of other customers having similar risk characteristics, and whether the terms of the loan were materially changed. In such cases, the outstanding fees and commissions not yet amortized as well as early repayment fees and commissions collected from the customer for the change in the terms of credit are recognized in the statement of profit and loss. Otherwise, the said fees and commissions are included as part of the net investment in the new loan and are recognized as an adjustment of the yield, as stated above.

3.7 **Early repayment commission.** Fees and commissions charged for early repayments are recognized immediately as part of interest income.

3.8 Regarding securities – see sub-section 5 below; for derivative financial instruments - see sub-section 6 below.

3.9 Other income and expenses are recognized on an accrual basis.

4. Non-accruing debts, credit risk and credit loss allowances

Identification and classification of non-accruing debts. The Bank has introduced procedures for the identification of problematic credit and for the classification of debts distinguishing between debts classified as problematic, including non-accruing debts and performing debts. According to such procedures, the Bank classifies all of its problematic debts and off-balance sheet items under the following classifications: special mention, substandard or non-accruing. A debt is classified as non-accruing when, based upon information and up to date events it is expected that the Bank would not be able to collect all amounts due according to the contractual terms of the debt.

For the purpose and classification and treatment of problematic credit, the Bank distinguishes between:

A. **Commercial credit for a debt the contractual balance of which amounts to NIS 1 million or over** – the decision regarding classification of the debt and the required allowance is based, inter alia, on the arrears situation of the debt, evaluation of the debtor's financial condition and repayment ability, evaluation of the primary source for the repayment of the debt, existence and condition of the collateral, financial condition of the guarantors, if at all, and their commitment to support the debt, and the ability of the borrower to obtain third party finance. In any event, a commercial debt as above, is classified as non-accruing when repayment of principal or interest is in arrears for 90 days or more, except where the debt is well secured and is in the process of collection, or if the debt has undergone troubled debt restructurings but does not comply with the terms for accrual of interest income.

1. Significant Accounting Policies (continued)

Starting with the date of classification as a non-accruing debt, the debt is treated as a debt not accruing interest income (such debt designated as "non-accruing debt"), unless the debt had undergone troubled debt restructurings and complies with the terms for accrual of interest income.

For details regarding the accounting write-off rules with respect to such debts, see "Accounting write-offs" below.

B. **Credit to private individuals, housing loans and commercial credit for a debt the contractual balance of which is lower than NIS 1 million** – the decision regarding the classification of the debt is based upon the arrears situation of the debt. For this purpose, the Bank monitors the number of days in arrears determined in relation to the contractual repayment terms of the debt. Such debts, which are in arrears for 90 days or over, are classified as substandard, though accrual of interest income is not interrupted. This, with the exception of housing loans, which are classified as debts not accruing interest income when the repayment of principal or interest is in arrears of 90 days or over.

Debts included in the group track, which had undergone restructure of a troubled debt restructurings and do not accrue interest income, are classified as non-accruing substandard debts.

For details regarding the accounting write-off rules with respect to such debts, see "Accounting write-offs" below.

Debt arrangement policy and treatment of restructured troubled debts. With a view of improving the management of credit and the collection thereof, and with the aim of avoiding failure situations or seizure of pledges assets, the Bank had determined and is applying a policy for arrangement of problematic debts and for a change in terms of debts not identified as problematic. Methods for changes in terms of debts may include, inter alia, deferment of repayment dates, reduction in the rate of interest or in the amounts of periodic repayments, changing the terms of the debt in order to modify them to the financing structure of the borrower, consolidation of the borrower's debts, transfer of the debt to other borrowers in case of a group of borrowers under joint control, reexamination of the financial yardsticks applying to the borrower, and more.

In order to determine whether a debt arrangement made by the Bank constitutes troubled debt restructurings, the Bank performs a qualitative test of all terms and conditions of the arrangement and of the circumstances under which it had been made, with a view of determining as to whether:

(1) The borrower is under financial difficulties; and (2) the Bank has granted a waiver to the borrower as part of the debt arrangement.

In order to determine as to whether the borrower is under financial difficulties, the Bank examines whether there are signs indicating financial difficulties of the borrower at date of the arrangement, or existence of a reasonable possibility of the borrower experiencing financial difficulties were it not for the arrangement.

The Bank does not classify a debt as a restructured troubled debt, where the restructure leads to an insignificant delay in repayment, taking into consideration the frequency of repayments during the contractual repayment period and during the expected original lifespan of the debt. In this respect, where several arrangements had been made involving changes in the loan terms, the Bank takes into account the cumulative effect of prior arrangements, when determining whether the delay in repayment, stemming from the restructure of the debt, is insignificant.

As a general rule, restructure leading to a delay in repayment of 90 days or more, as compared with the contractual terms, would be considered restructure leading to a delay in repayment that is not insignificant.

Treatment of restructured debts and consecutive restructure. Debts, the terms of which had been changed under the restructure of a troubled debt, are classified as non-accruing debts. Under special circumstances, when a debt had been restructured as a troubled debt, and at a later date, the banking corporation and the debtor enter into an additional restructure agreement, the banking corporation is no longer required to treat the debt as one that had undergone restructure of a troubled debt if the following two conditions exist: (1) the debtor is no longer under financial difficulties at date of the consecutive restructure; and (2) according to the terms of the consecutive restructure, no waiver had been granted to the borrower by the banking corporation (including no waiver of principal on a cumulative basis since date of extending the original loan).

Reversal of a non-accruing debt to the status of an accruing debt. As a general rule, a non-accruing debt reverts to be classified as an accruing debt if one of the two following conditions exists:

- There are no principal or interest components of the debt that are due and had not been repaid, and the Bank expects the repayment in full of the remaining balance of principal and interest according to the terms of the agreement (including amounts which had been written-off accounting wise or an allowance was made in their respect);
- Where the debt is now well secured and is in the process of collection.

1. Significant Accounting Policies (continued)

Moreover, with respect to a debt which had formally been restructured as a troubled debt, and classified as non-accruing at date of change in terms, the Bank may reinstate the debt as an accruing debt, on condition that an updated and well documented credit analysis is performed supporting reversal to accruing status, based on the financial condition of the borrower and prospects of repayment according to the updated terms. Otherwise, a debt that had undergone restructure of a troubled debt must continue to be classified as non-accruing debt.

Furthermore, with respect to a debt that had formally undergone restructure of a troubled debt, and which had been classified as accruing debt prior to the restructure, the Bank may continue to accrue interest on condition that following the restructure, collection of principal and interest according to the updated terms is reasonably secured, based on an updated and well documented credit analysis, on condition that the borrower has a history of continuous repayment performance over a reasonable period prior to the changes, and that the restructure has improved the prospects of collection of the loan according to a reasonable repayment schedule.

Allowance for credit loss – measurement. The Bank has determined procedures for the classification of credit and for measurement of the allowance for credit losses in order to maintain an appropriate level of allowance to cover current expected credit losses in relation to its credit portfolio. In addition, the Bank has determined procedures required to maintain an allowance at an appropriate level in order to cover current expected credit losses related to bonds held-to-maturity, bonds held in the available-for-sale portfolio as well as certain off-balance sheet exposure (see below).

Assessment of the allowance for current expected credit losses is computed over the contractual period of the financial asset. The contractual period is not adjusted for extensions, renewals and expected changes, unless one or more of the following applies: (a) at date of reporting, the Bank has reasonable expectations for an agreement with the borrower for a restructure of a troubled debt; or (b) the original loan agreement or the updated agreement at date of reporting include the option for extension or renewal of the loan, which may not be unconditionally revoked by the Bank.

In general, computation of the allowance for current expected credit losses is assessed on a collective basis (by means of statistical models) where the assets have similar risk characteristics. Such characteristics comprise, inter alia: (1) the business activity of the borrower; (2) the borrower's conduct of his banking operations; (3) classification of the borrower; (4) type of the financial asset; (5) type of collateral; (6) size; (7) age of the loan.

The Bank has divided the credit portfolio into segments according to its business viewpoint, while distinguishing between commercial credit, SME, housing loans, private individuals - other, and credit not to the public. The Bank has determined models and methodologies to be used in measuring the required allowance in each segment. The determined models are risk rated based (PD and LGD) that assess the amount of the expected loss in case of materialization of failure.

Where the reasonable and supportable period as determined by the Bank, is shorter than the lifespan of the financial asset, the Bank reverts to the use of historical information that is not modified to the risk of the specific borrower and is not modified for existing economic conditions or for anticipated future economic conditions, such as: changes in rate of unemployment, GDP, interest, etc.

Credit loss allowance – SME credit. For the SME credit portfolio, the Bank measures the expected credit loss allowance on the basis of the PD LGD method while dividing the credit portfolio into segments having similar risk characteristics, such as the rating models, type of financial asset and type of collateral.

For the purpose of modifying the historical data to present economic conditions and to expectations regarding future economic conditions, the Bank determined that the reasonable and supportable period is one year. In case of assets having a contractual lifespan exceeding this period, the Bank reverts to the use of historical information that is not modified, by means of a method divided into two layers. The first layer refers to a macro-economic modification; the reversal in respect thereof is immediate at the end of the first year. The second layer refers to reversal to historical data regarding losses and/or defaults. This reversal is performed during a period of two additional years by means of half-yearly modification formulas for the PD data, which in fact would reflect, on the basis of historical data, a modification of the PD rate for one year for the two coming years also.

Credit loss allowance – credit to private individuals (excluding housing loans). For the private individuals credit portfolio, excluding housing loans, the Bank measures the allowance for current expected credit losses using the PD LGD method, while dividing the credit portfolio into segments having similar risk characteristics, such as the rating models, type of financial asset and type of collateral.

1. Significant Accounting Policies (continued)

For the purpose of modifying the historical data to present economic conditions and to expectations regarding future economic conditions, the Bank decided that the reasonable and supportable period is one year. In case of assets having a contractual lifespan exceeding this period, the Bank reverts to the use of historical information that is not modified, by means of a method divided into two layers. The first layer refers to a macro-economic modification; the reversal in respect thereof is immediate at the end of the first year. The second layer refers to reversal to historical data regarding losses and/or defaults. This reversal is performed during a period of two additional years by means of half-yearly modification formulas for the PD data, which in fact would reflect, on the basis of historical data, a modification of the PD rate for one year for the two coming years also.

Credit loss allowance – housing loans. For the housing loan portfolio, the Bank measures the allowance for current expected credit losses using the PD LGD method, while dividing the credit portfolio into segments having similar risk characteristics, such as the rating group and the age of the loan.

For the purpose of modifying the historical data to present economic conditions and to expectations regarding future economic conditions, the Bank decided that the reasonable and supportable period is one year. As distinguished from other credit portfolios of the Bank (consumer and commercial), the defaults curve is based entirely on historical data, while the rating models are used solely for segmentation purposes. In view of this, where assets having a contractual lifespan longer than the reasonable and supportable period are involved, then reversal is made only for the macro-economic adjustment component. This reversal is made immediately at the end of the first year.

Credit loss allowance – commercial credit. For the commercial credit portfolio, the Bank measures the allowance for current expected credit losses using the PD LGD method, while dividing the credit portfolio into segments having similar risk characteristics, such as the rating models, type of financial asset and type of collateral.

For the purpose of modifying the historical data to present economic conditions and to expectations regarding future economic conditions, the Bank decided that the reasonable and supportable period is one year. In case of assets having a contractual lifespan exceeding this period, the Bank reverts to the use of historical information that is not modified, by means of a method divided into two layers. The first layer refers to a macro-economic modification; the reversal in respect thereof is immediate at the end of the first year. The second layer refers to reversal to historical data regarding losses and/or defaults. This reversal is performed during a period of four additional years by means of transfers matrix.

In addition to that, the Bank has determined criteria and factors that are taken into account in determining that for certain exposure to governments, the current expected credit losses reflect a zero loss.

Credit loss allowance – off-balance sheet credit exposure. Off-balance sheet credit exposure includes credit exposure for commitments to extend credit, documentary credit, financial guarantee not treated as insurance, and other similar instruments. The credit loss allowance for off-balance sheet exposure is assessed in the same way that the allowance for balance sheet credit is assessed, while taking into account the expected materialization of the credit. For the purpose of assessing the expected rate of materialization, a methodology has been determined, assessing the conversion coefficients of off-balance sheet credit into balance sheet credit, which are based on the rate of utilization respecting each type of off-balance sheet exposure, based on past experience.

The Bank does not assess an expected credit loss allowance for off-balance sheet commitments to extend credit, which may be unconditionally revoked by the Bank.

Credit loss allowance – bonds in the held-to-maturity portfolio. The Bank does not measure current expected credit losses for government bonds of the Government of Israel or the US Government, because the information regarding historical credit losses, following modification to existing conditions and to reasonable and supportable forecasts, leads to expectations that the non-payment of the basic amortized cost equals zero.

The remaining balance of the bonds, non-government as stated, is of a negligible amount.

Credit loss allowance – Available-for-sale bonds. The Bank assesses current expected credit losses for available-for-sale bonds at each reporting date, where the fair value of the bonds is lower than the amortized cost. The Bank tests whether the decline in fair value stems from credit losses or from other factors. Impairment related to credit loss is recognized by means of an allowance for credit losses, while impairment not recognized by means of a credit loss allowance, is taken to other comprehensive income, net of tax.

1. Significant Accounting Policies (continued)

The allowance for current expected credit losses regarding available-for-sale securities is computed on a specific basis, using the discounted cash flow method, through which the Bank compares the present value of expected future cash flows, determined on basis of past events, present conditions and reasonable and supportable forecasts (such as: sectorial, geographic, economic and political factors, relevant to the collection ability respecting the bond), to the basic amortized cost of the security and to its fair value. The allowance, as stated, is recognized against a credit loss expense, in order to reflect the credit loss component of the decline in fair value to below the amortized cost. The allowance for credit loss for an available-for-sale bond is limited so as not to exceed the amount of the difference between the amortized cost and the lower fair value (the fair value floor).

If over a period of time, the fair value of the security rises, then all the allowance for credit losses that had not been written-off accounting wise, is reversed by credit loss expenses release.

Credit loss allowance – credit assessed on a specific basis. When the Bank identifies that a financial asset does not have joint risk characteristics similar to those of other financial assets, the Bank assesses the allowance for credit losses for such assets on a specific basis, using the discounted cash flow method and/or on the basis of the value of the collateral, for loans that are collateral dependent.

In addition, with respect to commercial credit, the contractual balance of which amounts to NIS 1 million or over, and which is classified as non-accruing, the Bank applies the discounted cash flow method or on the basis of the value of the collateral.

Qualitative modifications. The Bank performs qualitative modifications intended to reflect, in computing the allowance for credit losses, assessments regarding characteristics that are not adequately reflected in the models used.

Expected collections. The allowance for credit losses includes also an assessment of expected collections for accounting write-offs.

Testing the overall adequacy of the allowance. In addition to the above stated, the Bank tests the overall adequacy of the allowance for credit loss. The adequacy test, as stated, is based on Management's judgment, which takes into account the risks inherent in the credit portfolio and the deficiencies and limitations of the assessment methods applied by the Bank in determining the allowance.

Accounting write-offs. The Bank writes-off accounting wise, any debt or a part thereof considered as uncollectible and having a low value, the stating of which as an asset is not justified, or a debt regarding which the Bank conducts collection efforts over a long period (defined generally as a period exceeding two years).

For debts the collection of which is collateral dependent, the Bank immediately writes-off against the balance of allowance for credit losses, that part of the recorded amount of the debt exceeding the fair value of the collateral.

With respect to commercial credit, the contractual balance thereof is lower than NIS 1 million, and credit to private individuals that is not for housing purposes, the Bank records an accounting write-off when the arrears period of the debt reaches 150 days or more. It is noted that, where the debt is secured by collateral that is not a residential property, and seizure of the pledged asset had begun and is secured, the Bank writes-off accounting wise only that part of the recorded amount of the debt exceeding the value of the collateral (net of selling expenses).

With respect to housing loans secured by residential property, the Bank performs a up-to-date assessment of the value of the collateral, no later than the debt becoming in arrears of 180 days or over, and writes-off accounting wise that part of the recorded amount of the loan exceeding the value of the collateral (net of selling expenses).

It is clarified that accounting write-offs do not involve a legal waiver, and they reduce the reported balance of the debt for accounting purposes only, while creating a new cost basis for the debt in the books of the Bank.

5. Securities

5.1 According to directives of the Supervisor of Banks, the Bank's investments in securities are classified as follows:

(a) Held to maturity bonds - bonds which the Bank intends and has the ability to hold until maturity, except for debentures which may be called early or otherwise disposed, such that the Bank may not cover substantially all of its recognized investment. Bonds are stated at cost with the addition of accumulated linkage differences or exchange differences and interest, as well as the premium or discount component created upon acquisition and not yet amortized.

The transfer or sale of bonds classified to the held-to-maturity portfolio, is permitted in case of certain changes in circumstances, in which the sale or transfer will not be considered as contradicting the initial classification of the bonds, including evidence of material deterioration in the repayment ability of the bond issuer.

(b) Available-for-sale bonds – bonds not classified as held-to-maturity bonds or as trading bonds. Available-for-sale bonds are stated in the balance sheet at fair value on the reporting date. Unrealized profits or losses on adjustment to fair value are not included in the statement of profit and loss and are reported net, after deduction of liability for taxes, in a separate item of capital in accumulated other comprehensive income, except for losses for decline in value recognized in the profit and loss statements.

1. Significant Accounting Policies (continued)

(c) Trading securities - purchased securities held for sale in the near period or securities, which the Bank has chosen to measure at fair value through the statement of profit and loss under the fair value alternative, except for shares with no available fair value. The trading securities are presented in the balance sheet at their fair value at the reporting date. unrealized profits or losses due to adjustments to fair value are recorded in the statement of profit and loss.

(d) Shares not for trading

- Shares, for which available fair value exists, are stated in the balance sheet at their fair value at the reporting date. Unrealized profits or losses and realized profits or losses on adjustment to fair value are stated in the statement of profit and loss;
- Shares, for which available fair value does not exist, are stated in the balance sheet at cost, net of impairment in value with the addition or deduction of changes in observable prices of regular transactions in similar or identical investments of the same issuer. Unrealized and realized profits and losses on adjustment to changes in observable prices, as stated, are recorded in the statement of profit and loss.

5.2 The cost of realized securities is recognized in the statement of profit and loss on a "moving average" basis.

5.3 Dividend income, accrued interest, linkage differentials, amortization of premium or discount (according to the effective interest method) as well as losses on impairment are recognized in the statement of profit and loss.

5.4 Interest income for acquired beneficiary rights (such as: asset backed financial instruments of the MBS, CDO, CLO, CMO types), excluding beneficiary rights of a high credit quality, is recognized according to the prospective interest method, the rate of interest used for recognition of interest income being adjusted to changes in assessment of future cash flows. In this respect, beneficiary rights of a high credit quality comprise beneficiary rights issued with U.S. government guarantee or by U.S. government agencies, as well as asset backed securities the rating of which is at least "AA".

5.5 Investments in venture capital funds is treated at cost less losses on impairment. Gains on investments in venture capital are recognized in the statement of profit and loss upon realization of the investment.

5.6 For the treatment of transactions involving the transfer of financial assets (such as: repurchase agreements, lending of securities, etc.), see subsection 9 below. In the matter of computing fair value, see subsection 7 below.

5.7 Decline in value of securities – available-for-sale bonds or bonds in the held to maturity portfolio – see Note 1 D 4 above.

5.8 Impairment in value of securities – shares with no available fair value – at each reporting period, the Bank conducts a qualitative assessment that takes into account impairment in value indicators, in order to assess whether an impairment in value had occurred regarding investments in shares with no available fair value. If, according to such assessment, an impairment in value of the investment in such shares had occurred, the Bank assesses the fair value of the investment in order to arrive at the amount of the loss incurred as a result of the impairment in value.

6. **Derivative financial instruments and hedge transactions.** The Bank recognizes all derivatives as assets or liabilities on the balance sheet and measures them at fair value. Changes in the fair value of a derivative instrument shall be reflected in the statement of profit and loss, or shall be included in the equity as an "other comprehensive income" component, according to the designation of the derivative instrument.

Hedge of fair value - The change in the fair value of derivatives hedging exposure to the change in the fair value of an asset or a liability, is recognized in the statement of profit and loss on a current basis, as well as the change in value of the hedged item, which may be related to the hedged risk.

Hedge of cash flows - The accounting treatment of changes in the fair value of derivatives that hedge exposure to changes in the cash flow generated by an asset or a liability: the change in the fair value of a derivative designated to hedge a cash flow risk, for components included in the hedge effectiveness assessment, is reported as a component of "other comprehensive income", and thereafter, in the period in which cash flows have an effect on the statement of profit and loss, it is reclassified to the statement of profit and loss.

For further details, see Note 28 hereunder.

7. **Determination of fair value of financial instruments.** Fair value is defined as the price that would have been received on a sale of an asset or the price that would have been paid upon the transfer of a liability, in an ordinary transaction between participants in the market at date of measurement. Among other things, the Standard requires that for assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the Bank.

1. Significant Accounting Policies (continued)

Sub-Topic 820-10 of the Codification details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets or liabilities, to which the Bank has access at date of measurement;
- Level 2 inputs: Inputs observable, directly or indirectly, for the asset or liability and which are not quoted prices that are included in Level 1;
- Level 3 inputs: unobservable inputs for assets or liabilities.

Securities. The fair value of trading securities, available-for-sale bonds and equity securities the fair value of which is readily available is stated on the basis of market prices quoted on a principal market, where several markets on which the security is traded exist, the assessment is made according to the quoted price at the most beneficial market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that quoted market price. The quoted price used for the determination of the fair value, is not adjusted for the size of the position of the Bank in relation to the volume of trade (size of holding factor). Where no quoted market price is available, the assessment of fair value is based on the best available information while making maximum use of observable inputs, taking into consideration the risk inherent in the derivative instrument (market risk, credit risk and such like).

Derivative financial instruments. Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted at the most beneficial market. Derivative financial instruments that are not marketable are assessed on the basis of models that take into account the risks inherent in the derivative instrument (market risk, credit risk and such like). For further details, see below for assessment methodologies for credit risk and non-performance risk.

Additional non-derivative financial instruments. No "market price" is available for most of the financial instruments in this category (such as: credit to the public, credit to the government, deposits from the public, deposits with banks, subordinate capital notes and non-marketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. To this end, future cash flows for non-accruing debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses for the debts.

Evaluation of credit risk and nonperformance risk. The Standard (ASC 820) requires to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by the Bank and measured according to fair value. Nonperformance risk includes the credit risk of the Bank but is not limited to that risk only.

For further details on the methods and principle assumptions used for assessment of fair value of financial instruments, see note 34 below regarding balances and fair value assessments of financial instruments.

8. **Offsetting assets and liabilities.** The Bank offsets assets and liabilities deriving from the same counterparty and presents in the balance sheet their net balance, where the following accumulated conditions exist: (1) on the said liabilities, the bank has a legally enforceable right of setoff of the liabilities against assets; (2) it is its intention to settle the liabilities and realize the assets on a net basis or simultaneously; (3) Both the Bank and the counterparty owe to one another determinable amounts.

   When assets and liabilities derive from two different counterparties, they are presented in the balance sheet at the net amount, upon meeting all the conditions detailed above and on condition that there is an agreement between the three parties that establish in a clear manner the Bank's right of set-off for said liabilities.

   The Bank does not offset the exposures for derivative instruments in the balance sheet.

   The Bank offsets deposits, the repayment of which to the depositor is conditional upon the collection of the credit and the credit granted out of such deposits, where no credit loss risk to the Bank is involved.

9. **Transfers and services relating to financial assets and settlement of liabilities.** The Bank applies the measurement and disclosure rules determined according to Topic 860 of the Codification, for the accounting treatment of financial asset transfers and extinguishments of liabilities.

   According to the said rules, the transfer of certain financial assets shall be treated as a sale accounting wise, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, and are beyond the reach of the transferor and his creditors, also in the case of bankruptcy or other type of receivership; (2) each acceptor has the right pledge or exchange the transferred asset, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor does not maintain effective control of the transferred financial assets.

   In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights, in addition to the conditions noted above.

1. Significant Accounting Policies (continued)

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are removed from the Bank's balance sheet. The differences between the amount of consideration received and the amount of the disposed assets are recognized in the statement of profit and loss. Accordingly, where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a secured borrowing with pledge of collateral. The Bank continues to record the transferred financial assets in the balance sheet, with no change in their measurement.

Transactions involving the lending or borrowing of securities, in which the lending is made in consideration of the credit quality and general collateral of the borrower, the lending or borrowing is treated as credit or as a deposit, which are measured at the fair value of the related securities. Income on an accrual basis relating to these securities are recorded as interest income from credit, while changes in fair value (over and above changes in the accrual basis) are recorded as part of non-interest financing income in the case of securities included in the trading portfolio, or recorded in other comprehensive income in the case of available-for-sale securities.

The Bank removes a liability if it had been extinguished, namely, if one of the following terms exists: (a) the Bank had paid the lender and was released from its obligations regarding this liability; or (b) the Bank, under a legal process, had been legally released from liability or, with the consent of the lender, had been released from being the principal debtor for this liability.

An overseas subsidiary conducts transactions for the sale of securities under repurchase agreements terms and for the purchase of securities under agreements to resell terms. Securities sold under repurchase agreements terms, according to which control over the sold asset has not been lost, are treated as acceptance of a secured liability, so that the sold securities are not eliminated from the balance sheet, being reflected in the section "Securities", against which a deposit, the repayment of which is secured by a pledge of the said securities, is reflected in the section "Securities lent or sold under agreements to repurchase". Securities purchased under resale agreement terms, are treated as the granting of a secured loan, so that the securities so purchased serve as collateral for the loan and are not reflected in the Balance sheet. The loan granted is reflected in the section "Securities borrowed or purchased under agreements to resell".

10. Fixed assets (buildings and equipment)

Recognition and measurement. Fixed asset items are measured at cost less depreciation and accumulated losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset, necessary costs involved in bringing the asset to the condition and location required for the asset to operate according to its designated use.

The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, according to the public reporting directives, the Bank classifies to the buildings and equipment item the cost of purchased software assets or capitalized costs of software developed internally for own use. Regarding the accounting treatment of software costs, see sub section 12 below.

Depreciation. An asset is depreciated when it is available for use, namely, when it has reached the location and the condition required for it to operate in the manner intended by Management.

Depreciation is charged to the Statement of profit and loss by the straight-line method over the assessed useful life span of each part of the fixed asset items, since this system reflects in the best manner, the forecasted consumption format of the future economic benefits embedded in the asset. Assets leased by way of a financial lease are amortized over the shorter of the period of the lease or the period of use of the asset. Leasehold improvements are being amortized over the shorter of the period of the lease or the useful life of the asset. Land is not amortized.

Assessments on the depreciation method, the useful life span of assets and their residual values are re-examined when events or changes in circumstances indicate that the present assessments are no longer appropriate, and are adjusted where required

For details as to the depreciation rates in the current period and the comparative periods, see Note 16 below.

11. **Leases - general.** Agreements, which confer the Bank control over the use of an asset for a period of time within the framework of a lease in return for a consideration, are treated as leases. Upon initial recognition, a liability is recognized in an amount equal to the present value of the future lease payments during the lease period (such payments do not include variable lease payments), and concurrently, a right of use asset is recognized in the amount of the liability for the lease, adjusted for lease payments made in advance or accumulated, and net of lease incentives, and with the addition of direct expenses incurred on the lease.

The lease period is determined as the period in which the lease is not revocable, together with periods covered by an option to extend or cancel the lease, if it is reasonably certain that the lessee would or would not exercise the option, respectively, and together with periods covered by an option to extend or not to cancel the lease, where the right to exercise such an option is controlled by the lessor.

For operating leases, a liability and a right of use asset would be recorded where the lease period exceeds 12 months. Where the lease is for land and buildings, the land and building components are taken separately for classification and measurement, a significant consideration in classifying the land component is the fact that in general, land has an indeterminate life span.

1. Significant Accounting Policies (continued)

Consecutive measurement. Following the initial recognition, a liability for lease (operating and financial) is measured at amortized cost according to the effective interest method. Moreover, the Bank examines a right of use asset (for an operating and a financial lease) for impairment in value, according to sub-topic 360-10-35 of the Codification regarding impairment of fixed assets.

Lease payments – operating lease. Lease payments, excluding variable lease payments, are recognized in profit and loss by the "straight line" method, over the period of the lease. Received lease incentives are recognized as an integral part of total lease expenses by the "straight line" method, over the period of the lease. Variable lease payments based on changes in index or in the rate of interest, are recognized in profit and loss in the period of change. Variable lease payments, which are not based on changes in index or in the rate of interest, are recognized in profit and loss in the period in which the specific aim leading to the change in the lease payments, is reached, and these would be cancelled in the period in which it is no longer expected that the specific aim would be reached.

In any consecutive reporting period, a right of use asset is recognized in the amount of the amortized cost of the liability for the lease, adjusted for lease payments paid in advance or accumulated, and net of the balance of lease incentives, together with direct costs not yet amortized and net of impairment losses accumulated for the right of use asset.

Lease payments – financial lease. Following the initial date of the lease, a right of use asset is measured at cost less accumulated amortization, net of accumulated impairment losses, and adjusted for the remeasurement of the liability for the lease. Amortization is computed by the "straight line" method over the useful life or the contractual period of the lease.

12. Intangible assets

Goodwill. Goodwill is measured at cost less accumulated impairment losses.

Software costs. Software purchased by the Bank is measured at cost less accumulated depreciation and impairment losses.

Capitalization of software costs for internal use. The Bank capitalizes costs related to the development of software for internal use only when: (1) the first stage of the project has been completed; and (2) Management has approved and has committed to, directly or indirectly, finance the software development project, and that it is expected that the project would be completed. The Bank capitalizes the following costs: direct cost of materials and services consumed, payroll cost of workers directly engaged in the development work or in obtaining the software. Other costs for the development operations and costs incurred in the first stage of the project are recognized in profit and loss as incurred.

Amortization. Amortization is charged to the Statement of profit and loss by the straight-line method over the useful life span of intangible assets, including software assets, beginning with the date on which the assets are ready for use.

Subsequent costs. The cost of upgrades and improvement of software for in-house use are capitalized only if it is expected that the costs incurred would lead to additional functionality. Other consecutive costs are recognized as an expense as incurred.

Guidelines in the matter of capitalization of in-house software development costs. Due to the accounting complexity involved in the process of capitalizing in-house software development costs, and in view of the materiality of the amounts of software costs capitalized, the Supervisor of Banks has determined guidelines in the matter of capitalization of software costs. The guidelines include reference to the materiality threshold for capitalization of software costs for each development project, the amortization period, capitalization coefficients for hours worked, and the grade of employees whose costs are to be capitalized.

13. Impairment of non-financial assets

Recognition of loss on impairment. Non-financial assets held for use are subject to review for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount is not recoverable if it exceeds the amount of the undiscounted cash flows expected to be derived from use of the asset and its realization. Loss on impairment is measured as the amount by which the carrying amount of the asset (group of assets) exceeds its fair value.

Impairment of costs of internal development of computer software. Examining the existence of impairment for the own development of computer software shall be made where the signs noted in the generally accepted accounting principles for banks in the United States exist, SOP 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40):

(1) It is not expected that the software will provide significant potential services;

(2) A material change occurred in the manner or scope of use of the software or in the anticipated use of the software;

(3) A material change in the software was made or will be made in the future;

(4) The costs of development or of modifying the software intended for internal use deviate materially from forecasted amounts;

(5) It is no longer expected that the development of the software will be completed and use made thereof.

If one or more of the above signs appear, the Bank examines impairment according to the rules of ASC 360.

1. Significant Accounting Policies (continued)

14. Non-current assets and disposal groups held for sale. The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount is settled primarily through a sale and not by way of continued use, in a period in which all the following terms are fulfilled: (1) Management is committed to the planning of a sale of the asset (or the disposal group); (2) the asset (or the disposal group) is available for immediate sale in its present condition; (3) an active plan has been initiated to locate a buyer and other actions have been taken to complete the planning to sell the asset; (4) the sale of the asset (or the disposal group) is probable and the transfer of the asset (or the disposal group) is expected to be classified as a sale completed within one year; (5) the asset (or the disposal group) is being actively marketed for sale at a price reasonable in relation to its present fair value; (6) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Bank measures the held for sale assets (or the disposal group) at the lower of the carrying amount or the fair value less costs to sell. Depreciable assets that are classified as held for sale are not subject to periodic depreciation.

An impairment loss recognized at the time of the initial classification of an asset (or a disposal group) as held for sale, as well as subsequent remeasurement profits or losses are carried to profit or loss. Profits from an increase in value are recognized up to the cumulative amounts of the impairment losses that were recognized from the time of the asset (or the disposal group) being classified as held for sale.

15. Employee rights

15.1 Post retirement benefits – pension, severance pay and other benefits – defined benefits plans

- The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions, including: discount rates, mortality rates, early retirement rates, forecasted long-term return rates on assets of the plan, compensation increases and employee turnover;
- The Bank reviews its assumptions on a periodic basis and updates these assumptions where required. The Bank applies an accounting policy of measuring anew on a quarterly basis the actuarial assessment of the severance pay;
- Changes in assumptions are in general recognized, subject to the instructions stated above, firstly in accumulated other comprehensive income, and are amortized to the statement of profit and loss in following periods;
- The liability is accumulated over the relevant period determined according to the rules detailed in section 715 of the codification;
- The Bank implements the guidelines issued by the Supervisor of Banks for internal control over the financial reporting process in the matter of employee rights, including for examining the "liability in substance" of the Bank to grant its employees benefits comprising increased severance pay and/or early pension.

15.2 Post retirement benefits – defined deposits plans

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, defines how deposits to the account of the employee should be determined instead of determining the amount of the benefits that the employee would receive. The Bank's commitment to deposit in the defined deposit plan, are recognized as an expense in the statement of profit and loss in the periods during which the employees have provided the relevant services.

15.3 Absence from work entitling compensation – vacation and sick leave

- The liability for vacation pay is measured on a current basis, without the use of discount rates and actuarial assumptions;
- The Bank does not accrue a liability for sick-leave that may materialize during the employee's current service.

15.4 According to instructions of the Supervisor of Banks, the discount rates are determined according to the rates of return to maturity, according to the maturity periods of Israeli government bonds at date of reporting, with the addition of an average margin of corporate bonds rated "AA" (international) and above at date of reporting. For practical reasons, the spread has been determined according to the difference between the rates of return to maturity, according to maturity periods, on U.S. corporate bonds rated "AA" and higher, and the rates of return to maturity, for the same maturity periods, on U.S. government Bonds, and everything at date of reporting.

15.5 The accounting treatment of actuarial profits/losses recognized in other comprehensive income – actuarial profits/losses included in the accumulated other comprehensive income and amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan;

15.6 The computation on an actuarial basis of the provisions for the Bank's liability for severance pay involves the use of statistical tools and evaluations on the future. For the purpose of the calculation, actuarial assumptions were determined based on past experience and Management's expectations regarding the future.

1. Significant Accounting Policies (continued)

16. Share based payment

The fair value at date of granting the share based payments to officers is charged as a payroll expense concurrently with the increase in the share capital over the period in which unconditional entitlement to the awards is obtained. The amount charged as an expense for share based payments conditional upon vesting terms being service terms or performance terms (that differ from market terms), is adjusted to reflect the number of awards expected to be vested.

17. Contingent liabilities. The accounting treatment of outstanding legal actions is according to the provisions of the U.S. Accounting Standard ASC 450 "Accounting for Contingencies" and its related guidelines, and according to the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of the "Accounting for Contingencies".

In assessing the outstanding legal actions, Managements of the Bank and of its subsidiaries base themselves on opinions of their legal Counsels, which determine the probability of the exposure to the risk involved in these claims materializing.

Claims have been classified according to the probability range for a risk exposure materializing, as follows:

1) Probable - probability of over 70%.
2) Reasonably possible - probability of over 20% and up to and including 70%.
3) Remote - probability of 20% or less.

The financial statements include appropriate provisions regarding claims the realization of the exposure for such was considered "probable".

According to the guidelines, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing for an ordinary legal action and an action approved as a class action, this in four financial statements (including one annual financial statements) to be published subsequently to the filing of a lawsuit together with a petition to have it approved as a class action suit, such period is not to include a period in which the Court has decided to stay the proceedings. Note 26 states separately the outstanding claims, for which a reasonable assessment of the exposure to risk is not possible.

The Bank has described material legal proceedings being conducted against the Bank and Group companies. In this respect, the Bank has determined that as a general rule, a legal proceeding shall be disclosed where the amount claimed exceeds 0.5% of the equity capital of the Bank if it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the equity capital where the reasonability prospects of the risk exposure materializing is possible or remote.

It should further be noted, that in cases where the Bank is one of the defendants in the action, and the claimants have not allocated the amount claimed to each of the defendants, the amount estimated as relevant to the Bank is computed to the best of ability, considering the fact that taking the full amount into account might be misleading and is not correct under the circumstances, and that the estimate made does not necessarily represent the allocation which at the end of the day would be decided by the Court.

The Bank is exposed to unasserted claims or suits due, inter alia, to doubts with regard to interpretation of agreements and/or legal provisions and/or their application. The Bank is made aware of such exposure in several ways, including: appeals or complaints by third parties to Bank entities. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal claim, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment made differs from an assessment conducted prior to filing of the claim.

18. Guarantees. Guarantees are contingent contracts that require the guarantor to make payments to the guaranteed party on the occurrence of the conditions that require the realization of the guarantee. A liability for guarantee is recognized in the books in the amount of its fair value, as assessed based on commission fees received, even if it is not expected that the payments will be made in the future. In cases where the Bank is a guarantor under a financial guarantee, it recognizes a liability in respect of two items of liability by the Bank in accordance with the letter of guarantee: a liability according to the fair value of the guarantee in respect of its unconditional obligation for the realization of the guarantee (ASC 460), and allowance for expected credit losses in respect of its conditional obligation for future payments payable when certain events occur or under certain terms (ASC 326-20). Application of the CECL model reflects the probability that the guarantee would be realized as well as an assessment of the credit loss expected in respect of the guarantee that is expected to be financed.

The liability is subtracted from the books at the time when the Bank is released from the risk, according to the nature of the guarantee, usually at the time of settling the liability.

1. Significant Accounting Policies (continued)

19. **Income tax expense.** The Bank's financial statements include current taxes and deferred taxes. The provision for taxes on income of the Bank and of its consolidated subsidiaries comprising financial institutions for VAT purposes, include profit tax levied on income under the Value Added Tax Law. VAT levied on payroll of financial institutions is included in the statement of profit and loss in the section "Salaries and related expenses".

    The Bank allocates the tax expense or the tax benefits on income to continuing operations to other comprehensive income and to items directly recognized in equity.

    The Bank recognizes differed tax liabilities for all temporary differences chargeable to tax, except for the following temporary differences: undistributed profits of a domestic subsidiary which in substance are for an indefinite period of time; an excess of the amount for purposes of financial reporting above the tax base of an investment in a foreign subsidiary, which in substance are for an indefinite period of time; differences related to goodwill (or part thereof) for which goodwill amortization is not deductible for tax purposes; differences stemming from intercompany transactions.

    The Bank recognizes deferred tax assets for all temporary differences available for deduction as well as for carry forward losses, and concurrently recognizes a valuation allowance for that amount included in the asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assessed by the amount of tax benefits that are not expected to be realized based on available evidence – both the positive evidence supporting the recognition of a deferred tax assets and the negative evidence supporting the creation of a valuation allowance for the deferred tax asset, to determine whether a net deferred tax asset should be recognized.

    - Deferred tax liabilities or deferred tax assets are measured by the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.
    - The Bank classifies interest income or expenses for taxes on income to the section "Taxes on income". Penalties payable to the tax authorities are also classified by the Bank to the section "Taxes on income".

    Uncertain tax positions. The Bank recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the Tax Authorities or by the Courts. Recognized tax positions are measured according to the highest amount the probability of its realization exceeds 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances leading to a change in considerations have occurred.

    Netting of deferred tax assets and liabilities. The Bank nets all deferred tax liabilities and tax assets, as well as all related valuation allowances for a certain taxable component and within the boundaries of a certain tax jurisdiction area.

    Additional taxes for the distribution of dividends. The Bank may be liable for additional taxes in the case of a distribution of dividend by consolidated subsidiaries. This additional tax is not included in the financial statements in cases where the investee company adopts a policy of non-distribution of dividends involving additional taxes. In cases where an investee company is expected to distribute dividends out of profits involving additional taxes, the provision for taxes is increased for the additional tax that might apply for such distribution of dividend.

20. **Earnings per share.** The Bank presents basic earnings per share for its ordinary share capital. The basic earnings per share is computed by dividing the earnings or loss attributed to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period.

    The diluted earnings per share are determined by the adjustment of the profit or loss attributable to the ordinary shareholders of the Bank and the adjustment of the weighted average number of outstanding ordinary shares, after adjustment for the effect of all potentially diluting shares, including share option warrants.

21. **Operating segments reporting**

    Regulatory operating segments. A regulatory operating segment is a component of a banking corporation which is engaged in specific operations or which serves particular classes of customers, as defined by the Supervisor of Banks. The reporting format for the Bank's regulatory operating segments has been determined in the Reporting to the Public Directives of the Supervisor of Banks.

    A regulatory operating segment is mainly defined on the basis of the classification of customers. Private customers are classified to the household segment and to the private banking segment based on the scope of their financial assets. Customers other than private individuals are classified to business segments, mainly on the basis of their business turnover (distinguishing between minute and small businesses, medium businesses and large businesses), to institutional bodies segment and to the financial management segment. In addition, the Bank is required to apply the operating segments reporting requirements according to Management's approach, when these are materially different from the regulatory operating segments.

1. Significant Accounting Policies (continued)

Operating Segments according to Management's approach. Further to the uniform reporting according to regulatory operating segments, the Reporting to the Public Directives require disclosure of operating segments according to Management's approach, and according to accounting principles accepted by U.S. banks in the matter of operating segments (included in ASC 280, see Note 30 below).

An operating segment defined according to Management's approach is a component of a banking corporation that is engaged in operations which are expected to produce income and bear expenses; the results thereof are being regularly reviewed by Management and the Board of Directors for making decisions on the allocation of resources and evaluation of its performance; and that separate financial information exists for such.

The classification of segments at the Bank is based upon the characterization of customer segments. These segments include also banking products. The results of the product segment that cannot be attributed to the relevant customer segments, are included in the section "Non-allocated amounts and adjustments".

22. **Amortization of deferred expenses.** Bond and subordinated debt notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.

23. **Debtors and creditors regarding credit card activity.** At date of the transaction, the credit card company clearing the transaction acquires an asset for the debt of the issuer of the card or the card holder and concurrently assumes a liability towards the trading house. Furthermore, a credit card Company as an issuer, acquires an asset for a debt of a card holder or of the issuing bank, and concurrently, a liability towards the clearing credit card company.

    Debtor and creditor balances for credit card transactions represent entries processed until the business day preceding the day of the report.

24. **Issuance agreements with customer clubs.** The issuance agreements of ICC with different customer clubs regularize, inter alia, the manner of distribution of income between the parties, as well as aspects relating to expenses, including marketing and advertising budgets provided by the parties and the distribution of costs.

    For engagements of ICC with customer clubs, the income of ICC for the cross-commission on transactions made by use of the club charge cards and interest income on transactions made with these cards, are included in the income in the consolidated financial statements (in the section "income from credit card commission" and in the section "net interest income" respectively). Amounts to which the customer clubs are entitled as well as the share of ICC in expenses are included in the section "other expenses". Furthermore, certain of the agreements of ICC with customer clubs include an award component depending on reaching certain milestones, for which, ICC assesses in each period the entitlement to such award, and accordingly recognizes an expense in the financial statements (which is spread over the relevant period).

E. New accounting standards and new directives of the Supervisor of Banks in the period prior to their implementation

Update of Standard ASU 2022-02 regarding Troubled Debt Restructurings and Vintage Disclosures. On March 31, 2022, the US Financial Accounting Standards Board (FASB) published ASU 2022-02 regarding the restructure of troubled debts and disclosure requirements in accordance with the year of granting the credit, in the matter of allowances for credit losses. The update eliminates the accounting guidance for troubled debt restructurings by creditors, while enhancing disclosure requirements for borrowers experiencing financial difficulties. Moreover, the update adds disclosure requirements regarding gross write-offs by year of granting the credit.

The provisions of the update apply to entities that have adopted the updated Standard 2016-13, starting with annual and interim periods beginning after December 15, 2022.

On October 19, 2023, the Supervisor of Banks published an amendment to the public reporting instructions regarding "change in terms of loans of borrowers in financial difficulties", with effect as from January 1, 2024.

As assessed by the Bank, the update is not expected to have a material impact.

2. Interest Income and Expenses

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
A. Interest Income[2]						
Credit to the public	16,471	10,176	6,871	10,032	6,057	4,048
Credit to the Governments	169	86	63	169	86	63
Deposits with the Bank of Israel and cash	2,024	680	37	1,572	522	27
Deposits with Banks	259	42	9	389	104	25
Securities borrowed or purchased under resale agreements	45	12	-	45	12	-
Bonds[1]	1,706	684	492	1,164	397	291
Other assets	38	20	19	-	-	-
Total interest income	**20,712**	**11,700**	**7,491**	**13,371**	**7,178**	**4,454**
B. Interest Expenses[2]						
Deposits from the public	(8,317)	(2,305)	(507)	(5,984)	(1,946)	(431)
Deposits from the Government	(5)	(2)	(2)	-	-	-
Deposits from the Bank of Israel	(5)	(7)	(6)	(3)	(5)	(4)
Deposits from banks	(284)	(85)	(29)	(146)	(32)	(4)
Securities lent or sold under agreements to repurchase	(542)	(65)	-	(534)	(65)	-
Bonds and subordinated debt notes	(623)	(543)	(417)	(214)	(43)	(229)
Other liabilities	-	-	(1)	-	-	(1)
Total interest expenses	**(9,776)**	**(3,007)**	**(962)**	**(6,881)**	**(2,091)**	**(669)**
Net interest income	**10,936**	**8,693**	**6,529**	**6,490**	**5,087**	**3,785**
C. Details of the net effect of hedge derivative instruments on interest income and expenses[3]:						
Interest Income	138	-	(31)	133	1	(27)
Interest expenses	(127)	(16)	19	(50)	-	-
D. Accrual basis, interest income from bonds:						
Held-to-maturity	210	177	116	103	105	90
Available-for-sale	1,211	464	363	781	250	189
Trading	285	43	13	280	42	12
Total included in interest income	1,706	684	492	1,164	397	291

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	55	39	34	-	-	-
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	205	132	109	-	-	-

(2) Including the impact of hedge relations.

(3) Details of the effect of hedge derivative instruments on subsection A+B.

3. Non-Interest Financing Income

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
A. Non-interest financing income (expenses) from operations not for trading purposes						
From operations in derivative instruments, net						
Net income for derivative instruments(4)	1,822	2,779	(1,111)	1,628	2,531	(1,077)
Total from operations in derivative instruments	**1,822**	**2,779**	**(1,111)**	**1,628**	**2,531**	**(1,077)**
From investments in bonds:						
Gains on sale of available-for-sale bonds(3)	15	53	221	8	47	171
Losses on sale of available-for-sale bonds(3)	(259)	(85)	(12)	(150)	(47)	(12)
Provision for impairment of available-for-sale bonds(3)	(24)	(45)	(69)	(24)	(35)	(69)
Total from investments in bonds	**(268)**	**(77)**	**140**	**(166)**	**(35)**	**90**
Net exchange rate differences	**(1,021)**	**(2,780)**	**1,065**	**(904)**	**(2,662)**	**1,012**
Net profit (loss) from investments in shares:						
Gains on sale from non trading shares	141	98	339	-	11	34
Losses on sale from non trading shares	-	(19)	-	-	(19)	-
Provision for impairment of non trading shares	(81)	(15)	(33)	-	-	-
Dividends from non trading shares	20	14	11	3	3	4
Unrealized profits (losses) (7)	71	(28)	66	4	(57)	67
Profit on sale of shares and activities of Associates	-	15	12	-	-	-
Total from investment in shares	**151**	**65**	**395**	**7**	**(62)**	**105**
Net profit on loans sold(8)	-	5	-	-	2	-
Total non-interest financing income (expenses) from operations not for trading purposes	**684**	**(8)**	**489**	**565**	**(226)**	**130**
B. Non-interest financing income from operations for trading purposes(5):						
Net income for derivative instruments	521	337	304	479	282	248
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value(1)	13	69	(31)	12	77	(32)
Net realized and non-realized profit on adjustment of trading shares to fair value(2)	-	19	3	-	20	3
Total from trading operations(6)	**534**	**425**	**276**	**491**	**379**	**219**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:						
Interest rate exposure	402	273	222	359	229	165
Foreign currency exposure	131	132	49	132	130	51
Share exposure	1	20	5	-	20	3
Total according to risk exposure	**534**	**425**	**276**	**491**	**379**	**219**
Total non-interest financing income	**1,218**	**417**	**765**	**1,056**	**153**	**349**

Footnotes:

(1) Of which, a part of the loss relating to trading bonds that are still on hand at balance sheet date	11	(13)	-	12	(11)	(1)
(2) Of which, a part of the income (loss) relating to trading shares that are still on hand at balance sheet date	22	22	3	24	24	3
(3) Reclassified from accumulated other comprehensive income (loss), see Note 10: Of which, profit from investments in bonds, net	(268)	(77)	140	(166)	(35)	90

(4) Excluding the impact of hedge relations.

(5) Including exchange rate differences from trading operations.

(6) For interest income on investments in trading bonds, see Note 2, above.

(7) Including profits and losses on measurement at fair value of shares with readily determinable fair value, as well as upward or downward adjustments of shares without readily determinable fair value.

(8) For details , see Note 31.

4. Fees and commissions

A. Composition

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	in NIS millions					
Account Management fees	490	472	440	288	281	262
Credit cards	1,827	1,709	1,502	175	185	172
Operations in securities and in certain derivative instruments	328	361	407	227	238	251
Fees and commissions from the distribution of financial products	149	158	158	132	140	141
Handling credit	234	226	188	187	175	143
Conversion differences	178	161	137	141	123	105
Foreign trade services	55	60	56	44	49	45
Net income from credit portfolio services	3	4	4	3	4	3
Fees and commissions on financing activities	152	177	159	108	133	116
Other fees and commissions	79	76	74	24	26	25
Total fees and commissions	**3,495**	**3,404**	**3,125**	**1,329**	**1,354**	**1,263**

4. Fees and commissions (continued)

B. Income from contracts with customers

Following is the distribution of income from fees and commissions according to regulatory segments of operation

	Consolidated											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
	2023											
Account Management fees	211	4	180	24	31	-	-	450	8	32	40	490
Credit cards	1,460	1	164	42	157	-	-	1,824	3	-	3	1,827
Operations in securities and in certain derivative instruments	108	44	58	14	46	9	24	303	25	-	25	328
Fees and commissions from the distribution of financial products	100	24	22	2	1	-	-	149	-	-	-	149
Handling credit	10	2	34	25	109	-	31	211	1	22	23	234
Conversion differences	58	12	92	10	6	-	-	178	-	-	-	178
Foreign trade services	-	-	28	12	11	1	3	55	-	-	-	55
Net income from credit portfolio services	3	-	-	-	-	-	-	3	-	-	-	3
Fees and commissions on financing activities	5	-	32	26	78	-	-	141	-	11	11	152
Other fees and commissions	10	-	5	1	14	-	-	30	-	49	49	79
Total fees	**1,965**	**87**	**615**	**156**	**453**	**10**	**58**	**3,344**	**37**	**114**	**151**	**3,495**
	2022											
Account Management fees	209	3	175	20	26	-	-	433	10	29	39	472
Credit cards	1,373	-	155	36	142	-	-	1,706	3	-	3	1,709
Operations in securities and in certain derivative instruments	117	42	61	15	53	10	42	340	21	-	21	361
Fees and commissions from the distribution of financial products	111	24	20	2	1	-	-	158	-	-	-	158
Handling credit	11	-	31	21	96	-	38	197	-	29	29	226
Conversion differences	45	10	90	11	5	-	-	161	-	-	-	161
Foreign trade services	1	-	30	13	13	1	2	60	-	-	-	60
Net income from credit portfolio services	3	-	-	-	-	1	-	4	-	-	-	4
Fees and commissions on financing activities	5	-	33	25	101	-	-	164	-	13	13	177
Other fees and commissions	10	-	5	2	14	-	1	32	-	44	44	76
Total fees	**1,885**	**79**	**600**	**145**	**451**	**12**	**83**	**3,255**	**34**	**115**	**149**	**3,404**

4. Fees and commissions (continued)

B. Income from contracts with customers (continued)

Following is the distribution of income from fees and commissions according to regulatory segments of operation (continued)

	consolidated											
	2021											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
Account Management fees	198	2	161	20	24	–	–	405	10	25	35	440
Credit cards	1,197	1	149	29	125	–	–	1,501	1	–	1	1,502
Operations in securities and in certain derivative instruments	128	48	69	14	44	10	56	369	37	1	38	407
Fees and commissions from the distribution of financial products	111	25	19	2	1	–	–	158	–	–	–	158
Handling credit	9	1	23	14	92	–	23	162	3	23	26	188
Conversion differences	38	7	81	8	3	–	–	137	–	–	–	137
Foreign trade services	–	–	28	12	10	–	6	56	–	–	–	56
Net income from credit portfolio services	4	–	–	–	–	–	–	4	–	–	–	4
Fees and commissions on financing activities	4	–	33	24	84	–	1	146	–	13	13	159
Other fees and commissions	11	–	6	2	11	–	3	33	–	41	41	74
Total fees	**1,700**	**84**	**569**	**125**	**394**	**10**	**89**	**2,971**	**51**	**103**	**154**	**3,125**

5. Other Income

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Management fees from consolidated subsidiaries	–	–	–	3	3	4
Capital gain on sale of buildings and equipment*	415	421	52	1	415	52
Other income	10	9	20	93	82	82
Total other income	**425**	**430**	**72**	**97**	**500**	**138**
*Of which: on a sale and leaseback transactions involving buildings and equipment	–	408	48	–	408	48

* For details regarding the rental of assets that were realized, during the interim period prior to their possession being transferred, see Note 16 section K (2) below.

6. Salaries and Related Expenses

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	in NIS millions					
Salaries	2,724	2,527	2,424	1,472	1,376	1,379
Expense resulting from share based payment transactions	12	6	-	10	3	-
Other related expenses including further education fund, vacation and sick leave	157	121	138	65	47	62
Long-term benefits	-	-	15	-	-	15
National Insurance and payroll taxes	560	523	537	399	363	387
Pension expenses (including severance pay and provident fund contributions)[1]:						
Defined Benefits Cost of service	98	117	105	61	75	63
Defined deposits	229	210	191	148	136	129
Other post retirement benefits and non-pension post retirement benefits Cost of service [1]	6	8	6	4	6	5
Special benefits for dismissal	12	5	4	-	-	-
Expenses regarding other employee benefits	52	51	48	4	4	3
Total salaries and related expenses	**3,850**	**3,568**	**3,468**	**2,163**	**2,010**	**2,043**
Of which: overseas salaries and related expenses	568	452	391	-	-	-
Of which an expense resulting from transactions treated as share based payment transactions settled by capital instruments.	12	6	-	10	3	-

Footnote:

(1) See Note 23.

7. Other Expenses

	Consolidated			The Bank		
	2023	2021	2020	2022	2021	2020
	In NIS millions					
Expenses for pension (including contributions for severance pay and provident funds), defined benefit (excluding cost of service)	104	55	62	89	46	45
Other post employment benefits and post retirement benefits that do not comprise pension (excluding cost of service)	20	11	13	18	9	10
Long-term benefits (excluding cost of service)	-	2	15	-	2	15
Reductions, settlements - defined benefit	-	46	143	-	46	143
Marketing and advertising	337	334	232	124	123	70
Communications	126	117	108	54	50	44
Computer services	386	299	253	164	133	130
Office expenses	31	27	27	12	13	14
Insurance	77	56	53	20	22	22
Professional services	282	233	235	136	110	131
Directors' fees	20	23	17	7	9	6
Instruction and training	12	16	10	8	6	7
Fees	785	656	552	46	38	32
Other	539	542	483	197	127	187
Total other expenses	**2,719**	**2,417**	**2,203**	**875**	**734**	**856**

8. Provisions for Taxes on Profit

A. Composition

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	in NIS millions					
Taxes for current year	2,384	2,041	1,103	1,698	1,241	570
Taxes for previous years	(64)	(47)	(17)	(28)	(82)	(28)
Total current taxes	**2,320**	**1,994**	**1,086**	**1,670**	**1,159**	**542**
Addition (deduction):						
Deferred taxes for current year	(124)	(238)	388	(253)	(123)	267
Deferred taxes for previous years	120	50	42	21	66	41
Total deferred taxes[1]	**(4)**	**(188)**	**430**	**(232)**	**(57)**	**308**
Total provision for taxes on profit	**2,316**	**1,806**	**1,516**	**1,438**	**1,102**	**850**
Of which: tax provision abroad	100	174	138	-	-	-

Footnote:

(1) Composition of deferred tax expense (income):

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	in NIS millions					
Deferred tax income, before the effect of the following items:	(4)	(188)	430	(232)	(57)	308
Total deferred taxes	**(4)**	**(188)**	**430**	**(232)**	**(57)**	**308**
The above table does not include the tax effect of certain items that are recognized directly in capital in each period:						
The tax effect of all items recognized directly in capital	(16)	(40)	-	-	(38)	-
The total tax expense (income) for items recognized in other comprehensive income	20	(659)	(147)	52	(281)	(84)

B. Reconciliation between the theoretical tax which would apply had the profit been taxed at the statutory tax rate applying to the Banking corporations in Israel, to the provision of taxes on profit as charged in the statement of profit and loss:

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	in NIS millions					
Profit before taxes	6,606	5,320	4,326	4,166	3,394	2,465
Statutory tax rate on banks in Israel	34.19%	34.19%	34.19%	34.19%	34.19%	34.19%
Income tax at the statutory tax rate	2,259	1,819	1,479	1,424	1,160	843
Income tax (tax savings) on:						
Income of foreign subsidiaries	(8)	(14)	1	-	-	-
Income exempt from tax or taxed at preferred rates	(12)	(4)	(8)	-	(1)	(1)
Adjustment differences on depreciation and capital gains	(13)	(23)	(9)	(1)	(22)	(9)
Other non-deductible expenses	25	18	3	21	10	3
Losses and timing differences, net, for which no deferred tax assets were recorded	16	15	8	-	-	-
Additional amounts payable with respect to problematic debts	6	13	21	5	9	16
Taxes for prior years	64	6	8	1	(14)	(2)
Income (expenses) of Israeli subsidiaries	(9)	(9)	16	(1)	(30)	-
Change in the balance of the provision for deferred tax asset	2	1	1	2	1	1
Net interest income for income tax	(14)	(16)	(4)	(13)	(11)	(1)
Total provision for taxes on profit	**2,316**	**1,806**	**1,516**	**1,438**	**1,102**	**850**

8. Provisions for Taxes on Profit (continued)

C. (1) Agreed final income tax assessments have been received by the Bank for the tax years up to and including 2018.

(2) Final withholding tax assessments up to and including the year 2018 were issued to the Bank in 2021.

(3) The major consolidated subsidiaries in Israel have received final tax assessments, or assessments deemed final for the years 2017-2021. Final income tax assessments have been received by IDB Bank for the years up to and including 2016.

D. On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totaled NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal submitted, as stated, as well as increasing the charge of the tax assessment to NIS 75 million (including interest and linkage increments). Should the position of ICC would not be admitted by the Court, it might be liable for the issues contained in the assessment, also for periods following the date of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Central Region District Court. On November 3, 2019, the Supreme Court approved an agreed plea for the consolidation of the hearing of the appeal with the hearing of the appeals filed by competitors of ICC. A pretrial hearing was held on May 24, 2021. Hearing of evidence was conducted during the months of June and July 2022. During the reported period, the parties conducted negotiations towards a compromise regarding the said assessments. The parties have not reached agreement, and accordingly, ICC submitted a summing-up brief in the case.

On February 12, 2023, ICC received VAT assessments for the years 2018-2022 in a total amount of NIS 192 million, including interest and linkage differences. The issues in the aforesaid assessments are the same in principle as those in the assessments issued for the previous taxable periods.

To the extent that ICC's position not be accepted by the court, it could be liable for the issues that are the subject of the assessment, as well as for the additional assessments and for periods later than the assessment date.

ICC estimates the amount of exposure, for which no provision has been recorded in its financial statements, at approx. NIS 254 million.

E. On February 9, 2000, the Bank's shares in IDB Bank were transferred to Discount Bancorp. Inc. (hereinafter - "Bancorp"), a wholly-owned holding subsidiary of the Bank, registered in the State of Delaware, U.S. The transfer of the shares to Bancorp was made at their value in the Bank's books, in consideration for shares issued by Bancorp. The transfer of the shares was made according to the provisions of Section 104A of the Israeli Income Tax Ordinance. The Bank is obligated to pay taxes in Israel for the said transfer of shares, if and when such shares will be sold. The Bank has provided the Tax Authority with a guarantee as to the payment of such taxes.

F. **Deferred tax liabilities not recognized.** As of December 31, 2023, deferred tax liabilities in the amount of approx. NIS 355 million, for temporary differences in the amount of approx. NIS 1,619 million, relating to investments in subsidiaries, were not included, since the Bank does not intend to realize these investments in the foreseeable future.

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes

1. Consolidated

	Opening balance	Changes recognized in the statement of income	Effect of change in the tax rate recognized in the statement of income	Changes recognized in capital	Changes recognized in other comprehensive income	Closing balance	The average tax
	in NIS millions						in %
	For the year of 2023						
Deferred tax asset							
On provision for credit losses	1,389	193	2	16	3	1,603	33.8
On provision for vacation pay, jubilee awards and provision of retirees	409	(4)	-	-	(8)	397	33.6
From excess liabilities for employee benefits over the assets of the plan	486	20	-	-	(34)	472	33.9
On securities	227	-	-	-	(45)	182	29.3
On income tax carry- forward deductions	29	18	-	-	-	47	23.3
Other	150	(78)	-	-	(4)	68	28.8
Gross balance of deferred tax assets	**2,690**	**149**	**2**	**16**	**(88)**	**2,769**	**33.0**
Provision for deferred tax asset	(29)	(16)	-	-	-	(45)	23.3
Balance of deferred tax assets deduction deferred tax liabilities	**2,661**	**133**	**2**	**16**	**(88)**	**2,724**	**33.3**
Deferred tax liability							
On securities	26	15	-	-	-	41	28.1
Fixed assets and leasing	132	(7)	1	-	1	127	29.0
For investment in investee companies	240	105	-	(4)	(2)	339	14.7
Other	26	17	-	-	1	44	28.1
Gross balance of deferred tax liabilities	**424**	**130**	**1**	**(4)**	**-**	**551**	**18.1**
Net balance of deferred tax assets	**2,237**	**3**	**1**	**20**	**(88)**	**2,173**	**29.2**
Of which: for foreign operations	299					249	29.9
	For the year of 2022						
Deferred tax asset							
On provision for credit losses	1,008	140	(2)	230	13	1,389	33.7
On provision for vacation pay, jubilee awards and provision of retirees	517	(75)	-	-	(33)	409	33.7
From excess liabilities for employee benefits over the assets of the plan	610	26	-	-	(150)	486	34.0
On securities	2	(1)	-	-	226	227	29.0
On income tax carry- forward deductions	17	12	-	-	-	29	23.0
Other	59	80	-	-	11	150	27.2
Gross balance of deferred tax assets	**2,213**	**182**	**(2)**	**230**	**67**	**2,690**	**32.7**
Provision for deferred tax asset	(14)	(15)	-	-	-	(29)	23
Balance of deferred tax assets deduction deferred tax liabilities	**2,199**	**167**	**(2)**	**230**	**67**	**2,661**	**32.8**
Deferred tax liability							
On securities	40	(14)	-	-	-	26	27.2
Fixed assets and leasing	147	(16)	(5)	-	6	132	28.3
For investment in investee companies	231	6	-	-	3	240	14.8
Other	16	7	2	-	1	26	28.8
Gross balance of deferred tax liabilities	**434**	**(17)**	**(3)**	**-**	**10**	**424**	**18.7**
Net balance of deferred tax assets	**1,765**	**184**	**1**	**230**	**57**	**2,237**	**29.7**
Of which: for foreign operations	73					299	29.0

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes (continued)

2. The Bank

	Opening balance	Changes recognized in the statement of income	Changes recognized in capital	Changes recognized in other comprehensive income	Closing balance	The average tax
			in NIS millions			in %
			For the year of 2023			
Deferred tax asset						
On provision for credit losses	720	231	-	-	951	34.2
On provision for vacation pay, jubilee awards and provision of retirees	337	(6)	-	(8)	323	34.2
From excess liabilities for employee benefits over the assets of the plan	338	16	-	(43)	311	34.2
On income tax carry- forward deductions	4	4	-	-	8	23.0
Other	17	1	-	-	18	34.2
Gross balance of deferred tax assets	**1,416**	**246**	**-**	**(51)**	**1,611**	**34.2**
Provision for deferred tax asset	(4)	(2)	-	-	(6)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,412**	**244**	**-**	**(51)**	**1,605**	**34.2**
Deferred tax liability						
On securities	20	1	-	-	21	34.2
Fixed assets and leasing	69	11	-	-	80	28.2
For investment in investee companies	226	105	(4)	(1)	326	14.5
Gross balance of deferred tax liabilities	**315**	**117**	**(4)**	**(1)**	**427**	**16.5**
Net balance of deferred tax assets	**1,097**	**127**	**4**	**(50)**	**1,178**	**27.9**
			For the year of 2022			
Deferred tax asset						
On provision for credit losses	596	74	50	-	720	34.2
On provision for vacation pay, jubilee awards and provision of retirees	428	(65)	-	(26)	337	34.2
From excess liabilities for employee benefits over the assets of the plan	422	22	-	(106)	338	34.2
On income tax carry- forward deductions	4	-	-	-	4	23.0
Other	14	3	-	-	17	34.2
Gross balance of deferred tax assets	**1,464**	**34**	**50**	**(132)**	**1,416**	**34.2**
Provision for deferred tax asset	(4)	-	-	-	(4)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,460**	**34**	**50**	**(132)**	**1,412**	**34.2**
Deferred tax liability						
On securities	39	(19)	-	-	20	34.2
Fixed assets and leasing	73	(4)	-	-	69	27.8
For investment in investee companies	221	3	-	2	226	14.5
Gross balance of deferred tax liabilities	**333**	**(20)**	**-**	**2**	**315**	**16.9**
Net balance of deferred tax assets	**1,127**	**54**	**50**	**(134)**	**1,097**	**28.8**

8. Provisions for Taxes on Profit (continued)

H. Brought forward losses and credits for tax purposes

	Deferred tax assets	Provision for deferred tax asset	Net deferred tax assets	Balance of loss[1]
	in NIS millions			
	For the year ended December 31 2023			
Losses for tax purposes:				
The bank	8	6	2	21
Subsidiaries in Israel	40	40	-	170
	For the year ended December 31 2022			
Losses for tax purposes:				
The bank	4	4	-	18
Subsidiaries in Israel	25	25	-	110

Footnote:
(1) The first year of expiry cannot be estimated

I. **Taxation of the foreign banking subsidiary.** According to an agreement reached with the Tax Authority, the earnings of the foreign banking subsidiary are added to the Bank's chargeable income, so that the Bank complements the tax recorded abroad on the pre-tax accounting profits of the foreign subsidiary to the amount of tax that would have been paid in Israel on such profit based on the tax rate applicable to the Bank in Israel.

J. For details regarding a tax ruling for the establishment of PayBox Company, see Note 38 below.

K. **Special Payment for the Purpose of Achieving the Budget Objectives (Provisional Instruction) Bill, 5784-2024.** On March 4, 2024, the Knesset Finance Committee approved the bill for its second and third reading, within the framework of which, it is proposed to impose on banks in the years 2024 and 2025, a special payment in order to achieve the goals of the budget during the "Iron Swords" War, the scope of which would be 6% of the profit earned by a bank on its operations in Israel, and not exceeding its proportionate share of the total amount of NIS 1,200 million in 2024 and of a total amount of NIS 1,300 million in 2025. The Law will also apply to MDB. According to the Law, in 2024 the higher rates will apply on a pro rata basis to the portion of the profits in that tax year that relate to the period after the amendment is passed. The special payment, as stated, shall not be deductible in accordance with the Income Tax Ordinance.

9. Earnings Per Share

	For the year ended December 31		
	2023	2022	2021
	in NIS millions		
Earnings per share			
Total net income attributed to bank's shareholders	4,192	3,495	2,773
	In Thousand		
Earnings per share:			
Weighted average of shares of NIS 0.1 par value:			
Balance to January 1	1,237,011	1,164,017	1,164,017
Shares issued during the year[1]	-	55,396	-
Weighted average of shares of NIS 0.1 par value, used for earnings per share	**1,237,011**	**1,219,413**	**1,164,017**
Earnings per share of NIS 0.1 (in NIS)	**3.39**	**2.87**	**2.38**

Footnote:
(1) As described in Note 24 a.

According to the rules, stock options issued to Officers and senior employees (see Note 24 below) have not been taken into account in the reported period in computing the diluted per share earnings.
In the reported period, the Bank did not have securities having a dilutive effect.

10. Accumulated Other Comprehensive Income (Loss)

A. Changes in other comprehensive income (loss) after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests					Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
	Net adjustments, for presentation of available-for- sale bonds at fair value	Adjustments from translation of financial statements[1]	Net profit (loss) for cash flows hedge	Adjustments for employee benefits	Total		
	in NIS millions						
Balance at December 31, 2020	486	(598)	1	(799)	(910)	(13)	(897)
Net change during the year	(243)	(113)	(2)	(16)	(374)	3	(377)
Balance at December 31, 2021	**243**	**(711)**	**(1)**	**(815)**	**(1,284)**	**(10)**	**(1,274)**
Net change during the year	[2](1,562)	484	(19)	363	(734)	4	(738)
Balance at December 31, 2022	**(1,319)**	**(227)**	**(20)**	**(452)**	**(2,018)**	**(6)**	**(2,012)**
Net change during the year	219	148	11	79	457	(3)	460
Balance at December 31, 2023	**(1,100)**	**(79)**	**(9)**	**(373)**	**(1,561)**	**(9)**	**(1,552)**

Footnotes:

(1) Including adjustments from translation of financial statements of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

(2) See Note 12 M.

10. Accumulated Other Comprehensive Income (Loss) (continued)

B. Changes in other comprehensive income (loss) component before tax effect and after tax effect

	2023			2022			2021		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Changes in components of other comprehensive loss, before attribution to non-controlling interests:									
Adjustments for presentation of available-for- sale bonds at fair value									
Net unrealized loss from adjustments to fair value	(12)	6	(6)	(2,448)	797	(1,651)	(212)	62	(150)
loss on available-for-sale bonds reclassified to the statement of income(2)	335	(110)	225	131	(42)	89	(140)	47	(93)
Net change during the year (4)	**323**	**(104)**	**219**	**(2,317)**	**755**	**(1,562)**	**(352)**	**109**	**(243)**
Translation adjustments									
Adjustments from translation of financial statement (1)	148	-	148	484	-	484	(113)	-	(113)
Net change during the year	**148**	**-**	**148**	**484**	**-**	**484**	**(113)**	**-**	**(113)**
Cash flow hedging									
Net loss for cash flow hedging	(5)	1	(4)	(31)	9	(22)	(2)	1	(1)
Net loss (income) for cash flow hedging reclassified to the statement of income(5)	21	(6)	15	4	(1)	3	(1)	-	(1)
Net change during the year	**16**	**(5)**	**11**	**(27)**	**8**	**(19)**	**(3)**	**1**	**(2)**
Employee benefits									
Net actuarial income	75	(27)	48	437	(147)	290	(241)	84	(157)
loss reclassified to the statement of income(3)	47	(16)	31	111	(38)	73	213	(72)	141
Net change during the year	**122**	**(43)**	**79**	**548**	**(185)**	**363**	**(28)**	**12**	**(16)**
Total net change during the year	**609**	**(152)**	**457**	**(1,312)**	**578**	**(734)**	**(496)**	**122**	**(374)**
Changes in components of other comprehensive income attributed to non-controlling interests:									
Total net change during the year	**(4)**	**1**	**(3)**	**5**	**(1)**	**4**	**4**	**(1)**	**3**
Changes in components of other comprehensive income (loss) attributed to the Bank's shareholders:									
Total net change during the year	**613**	**(153)**	**460**	**(1,317)**	**579**	**(738)**	**(500)**	**123**	**(377)**

Footnotes:
(1) Including adjustments from translation of financial statement of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.
(2) The pre-tax amount is reported in the of statement of profit and loss in the item "non-interest financing income". For further details see the note on non-interest financing income.
(3) The pre-tax amount has been classified to other expenses.
(4) As described in Note 12 M.
(5) The pre-tax amount is reported in the of statement of profit and loss in the item "interest income and expenses".

11. Cash and Deposits with Banks

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
	in NIS millions			
Cash and deposits with central banks	43,899	61,591	34,166	45,632
Deposits with commercial banks	7,216	4,122	11,275	8,043
Total cash and deposits with banks(1)	**51,115**	**65,713**	**45,441**	**53,675**
Includes cash, deposits with banks and deposits with central banks for an initial period of up to three months	50,596	65,252	41,267	50,039

Footnote:
(1) See Note 27 C, D, E, G, H, J, K for pledges.

12. Securities

A. Composition of this item - consolidated[1]

	December 31 ,2023				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds[7]					
Bonds and loans:					
Of the Israeli Government[10]	9,473	9,473	-	823	8,650
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	3,643	3,643	7	413	3,237
Of others abroad[6]	63	63	-	2	61
Total held-to-maturity bonds	**13,179**	**[9]13,179**	**7**	**1,238**	**11,948**

	December 31 ,2023				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds[8]					
Bonds and loans:					
Of the Israeli Government[10]	22,339	23,055	52	768	22,339
Of foreign governments	5,347	5,391	16	60	5,347
Of Israeli financial institutions	99	101	-	2	99
Of foreign financial institutions	630	622	8	-	630
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	5,654	6,127	25	498	5,654
Of others in Israel	284	317	-	33	284
Of others abroad[6]	2,097	2,080	27	10	2,097
Total Available- for- sale bonds	**[9]36,450**	**37,693**	**[3]128**	**[3]1,371**	**36,450**

	December 31 ,2023				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares and funds	1,899	1,777	[5]130	[5]8	1,899
Of which: shares and funds, the fair value of which is not readily available[11]	1,732	1,688	44	-	1,732
Total not for trading securities	**51,528**	**52,649**			**50,297**

For footnotes see next page.

12. Securities (continued)

A. Composition of this item - consolidated[1] (continued)

	December 31 ,2023				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	7,557	7,545	16	4	7,557
Of foreign governments	76	76	-	-	76
Of others in Israel	3	4	-	1	3
Total bonds	**(9)7,636**	**7,625**	**16**	**5**	**7,636**
Shares	104	82	24	2	104
Total trading securities	**7,740**	**7,707**	**(5)40**	**(5)7**	**7,740**
Total securities	**59,268**	**60,356**			**58,037**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Included in "Accumulated other comprehensive income".

(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer

(5) Recorded in the statement of profit and loss.

(6) Municipal bonds and bonds of states in the U.S.

(7) No data is included for the balance of allowance for credit loss, because the allowance at December 31, 2023 is in a negligible amount.

(8) No data is included for the balance of allowance for credit loss, because, as stated, no such allowance was required as of December 31, 2023.

(9) Including securities sold by the Bank under repurchase terms from held-to-maturity portfolio at an amortized cost of NIS 7,110 million, from the available for sale portfolio with a market value of NIS 4,531 million and from trading portfolio with a market value of NIS 3,805 million.

(10) As described in Note 12 m.

(11) The impairment in value (cumulative) of shares not held for trading and which have not got a fair value assessment, amounted in total to NIS 163 million, as of December 31, 2023. Of which: provision for impairment in respect of funds in an amount of NIS 74 million.

	December 31, 2022				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds[6]					
Bonds and loans:					
Of the Israeli Government[9]	11,497	11,497	1	843	10,655
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	3,257	3,257	1	408	2,850
Of others abroad[6]	93	93	-	4	89
Total held-to-maturity bonds	**14,847**	**(8)14,847**	**2**	**1,255**	**13,594**

12. Securities (continued)

A. Composition of this item - consolidated[1] (continued)

	December 31, 2022				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds[7]					
Bonds and loans:					
Of the Israeli Government[9]	12,625	13,251	57	683	12,625
Of foreign governments	5,375	5,507	3	135	5,375
Of Israeli financial institutions	89	94	-	5	89
Of foreign financial institutions	549	556	5	12	549
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	5,155	5,811	1	657	5,155
Of others in Israel	384	414	1	31	384
Of others abroad[6]	1,681	1,711	13	43	1,681
Total Available- for- sale bonds	**[8]25,858**	**27,344**	**[3]80**	**[3]1,566**	**25,858**

	December 31, 2022				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares and funds	1,767	1,692	[5]85	[5]10	1,767
Of which: shares and funds, the fair value of which is not readily available[11]	1,637	1,603	34	-	1,637
Total shares	**42,472**	**43,883**			**41,219**

	December 31, 2022				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,206	2,218	-	12	2,206
Of foreign governments	76	76	-	-	76
Of others in Israel	14	15	-	1	14
Total bonds	**[8]2,296**	**2,309**	**-**	**13**	**2,296**
Shares	26	4	24	2	26
Total trading securities	**2,322**	**2,313**	**[5]24**	**[5]15**	**2,322**
Total securities	**44,794**	**46,196**			**43,541**

Footnotes:
(1) See Note 27 for pledges.
(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(3) Included in "Accumulated other comprehensive income".
(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer.
(5) Recorded in the statement of profit and loss.
(6) Municipal bonds and bonds of states in the U.S.
(7) No data is included for the balance of allowance for credit loss, because the allowance at December 31, 2022 is in a negligible amount.
(8) No data is included for the balance of allowance for credit loss, because, as stated, no such allowance was required as of December 31, 2022.
(9) Including securities sold by the Bank under repurchase terms from held-to-maturity portfolio at an amortized cost of NIS 808 million, from the available for sale portfolio with a market value of NIS 2,282 million and from trading portfolio with a market value of NIS 976 million.
(10) As described in Note 12 m.
(11) The impairment in value (cumulative) of shares not held for trading and which have not got a fair value assessment, amounted in total to NIS 96 million, as of December 31, 2023. Of which: provision for impairment in respect of funds in an amount of NIS 73 million.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

B. Composition of this item - the Bank[1]

	December 31,2023				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds[6]					
Bonds and loans:					
Of the Israeli Government[9]	8,012	8,012	-	619	7,393
Total held-to-maturity bonds	**8,012**	**[8]8,012**	**-**	**619**	**7,393**

	December 31,2023				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds[7]					
Bonds and loans:					
Of the Israeli Government[9]	16,034	16,314	29	309	16,034
Of foreign governments	5,217	5,261	16	60	5,217
Of Israeli financial institutions	83	85	-	2	83
Of foreign financial institutions	615	607	8	-	615
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	885	880	6	1	885
Of others in Israel	281	314	-	33	281
Of others abroad	1,717	1,694	26	3	1,717
Total Available- for- sale bonds	**[8]24,832**	**25,155**	**[3]85**	**[3]408**	**24,832**

	December 31,2023				
	Book value	Amortized cost (cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares and funds	150	104	[5]49	[5]3	150
Of which: shares and funds, the fair value of which is not readily available	83	83	-	-	83
Total not for trading securities	**32,994**	**33,271**			**32,375**

12. Securities (continued)

B. Composition of this item - the Bank[(1)] (continued)

	December 31,2023				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(2)]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	7,557	7,545	16	4	7,557
Total bonds	**[(8)]7,557**	**7,545**	**16**	**4**	**7,557**
Shares	24	-	24	-	24
Total trading securities	**7,581**	**7,545**	**[(5)]40**	**[(5)]4**	**7,581**
Total securities	**40,575**	**40,816**			**39,956**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".

(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer

(5) Recorded in the statement of profit and loss.

(6) No data is included for the balance of allowance for credit loss, because the allowance at December 31, 2023 is in a negligible amount.

(7) No data is included for the balance of allowance for credit loss, because, as stated, no such allowance was required as of December 31, 2023.

(8) Including securities sold by the Bank under repurchase terms from held-to-maturity portfolio at an amortized cost of NIS 7,110 million, from the available for sale portfolio with a market value of NIS 4,531 million and from trading portfolio with a market value of NIS 3,805 million.

(9) As described in Note 12 m.

12. Securities (continued)

B. Composition of this item - the Bank[1] (continued)

	December 31,2022				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds[6]					
Bonds and loans:					
Of the Israeli Government[9]	10,022	10,022	-	706	9,316
Total held-to-maturity bonds	**10,022**	**[8]10,022**	**-**	**706**	**9,316**

	December 31,2022				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds[7]					
Bonds and loans:					
Of the Israeli Government[9]	6,632	6,917	20	305	6,632
Of foreign governments	5,358	5,489	3	134	5,358
Of Israeli financial institutions	71	75	-	4	71
Of foreign financial institutions	549	556	5	12	549
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	820	856	-	36	820
Of others in Israel	322	352	1	31	322
Of others abroad	1,314	1,329	13	28	1,314
Total bonds	**[8]15,066**	**15,574**	**[3]42**	**[3]550**	**15,066**

	December 31,2022				
	Book value	Amortized cost (cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares and funds	139	96	[5]45	[5]2	139
Of which: shares and funds, the fair value of which is not readily available	79	79	-	-	79
Total not for trading securities	**25,227**	**25,692**			**24,521**

12. Securities (continued)

B. Composition of this item - the Bank[1] (continued)

	December 31,2022				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	2,167	2,178	-	11	2,167
Total bonds and bills	**[8]2,167**	**2,178**	**-**	**11**	**2,167**
Shares	25	1	24	-	25
Total trading securities	**2,192**	**2,179**	**[5]24**	**[5]11**	**2,192**
Total securities	**27,419**	**27,871**			**26,713**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".

(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer

(5) Recorded in the statement of profit and loss.

(6) No data is included for the balance of allowance for credit loss, because the allowance at December 31, 2022 is in a negligible amount.

(7) No data is included for the balance of allowance for credit loss, because, as stated, no such allowance was required as of December 31, 2022.

(8) Including securities sold by the Bank under repurchase terms from held-to-maturity portfolio at an amortized cost of NIS 808 million, from the available for sale portfolio with a market value of NIS 2,282 million and from trading portfolio with a market value of NIS 976 million.

(9) As described in Note 12 m.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

C. Amortized cost and unrealized losses, according to the length of the period and rate of impairment of held-to-maturity bonds which are in an unrealized loss position - consolidated

	December 31, 2023							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of the Israeli Government	238	34	-	34	8,402	515	274	789
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	327	3	-	3	2,845	355	55	410
Of others abroad	-	-	-	-	37	2	-	2
Total held-to-maturity bonds	**565**	**37**	**-**	**37**	**11,284**	**872**	**329**	**1,201**

	December 31, 2022							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of the Israeli Government	8,825	456	13	469	1,802	352	22	374
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	1,407	152	21	173	1,714	175	60	235
Of others abroad	63	4	-	4	-	-	-	-
Total held-to-maturity bonds	**10,295**	**612**	**34**	**646**	**3,516**	**527**	**82**	**609**

Footnote:

(1) An amount lower than NIS 1 million.

12. Securities (continued)

D. Fair value and unrealized losses, according to the length of the period and rate of impairment of available-for-sale bonds which are in an unrealized loss position - consolidated

	December 31, 2023							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available- for-sale bonds								
Bonds and loans:								
Of the Israeli Government	9,175	174	15	189	7,324	461	118	579
Of foreign governments	962	15	-	15	1,361	45	-	45
Of Israeli financial institutions	1	(1)-	-	-	69	2	-	2
Of foreign financial institutions	17	(1)-	-	-	26	(1)-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	666	8	-	8	3,012	190	300	490
Of others in Israel	23	1	-	1	260	32	-	32
Of others abroad	208	1	-	1	261	9	-	9
Total available-for-sale bonds	**11,052**	**199**	**15**	**214**	**12,313**	**739**	**418**	**1,157**

	December 31, 2022							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available- for-sale bonds								
Bonds and loans:								
Of the Israeli Government	5,576	431	49	480	1,588	186	17	203
Of foreign governments	2,018	57	-	57	1,419	78	-	78
Of Israeli financial institutions	89	5	-	5	-	-	-	-
Of foreign financial institutions	309	10	-	10	40	2	-	2
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	3,035	233	-	233	1,924	164	260	424
Of others in Israel	294	31	-	31	3	- (1)	-	-
Of others abroad	1,050	36	-	36	61	7	-	7
Total available-for-sale bonds	**12,371**	**803**	**49**	**852**	**5,035**	**437**	**277**	**714**

Footnote:
(1) An amount lower than NIS 1 million.

12. Securities (continued)

E. **Further details regarding mortgage and asset backed securities, on a consolidated basis.** The Bank's securities portfolio as of December 31, 2023, includes investments in asset backed securities, primarily investment in mortgage backed securities (MBS) which are held for the most part by IDB Bank.

Mortgage-backed Securities - MBS. A type of asset-backed security (ABS) that is secured by a mortgage or a pool of mortgages, for which periodic payments of principal and interest are paid. These securities are also referred to as mortgage related or mortgage pass-through securities.

The Board of Directors of IDB Bank has determined restrictions on the volume of investment in mortgage backed bonds (MBS) except for Ginni Mae.

The market risk of these securities is evaluated prior to purchase to determine their suitability for inclusion in the portfolio. Moreover, certain high risk tranches, are not allowable.

A real estate mortgage investment conduit (REMIC) is a complex pool of mortgage securities created to acquire investment income for its creators and investors. REMICs consist of a fixed pool of mortgages broken apart into tranches, repackaged, and marketed to investors as individual securities.

A stripped MBS, or stripped mortgage-backed security (MBS), is a type of mortgage-backed security that is split into principal-only tranches and interest-only tranches. Stripped MBS derive their cash flows either from principal payments or interest payments on the underlying mortgages, unlike conventional MBS where cash flows are based on both principal and interest payments.

Mortgage Pass - Through. A security issued by a financial institution which constitutes holdings of a proportionate share of the mortgage loan portfolio of private borrowers. Where the issue is executed by Ginnie Mae Government Sponsored Enterprises (hereinafter: "GNMA"), a U.S. Government guarantee is in effect. When the issue is performed by Fannie Mae or Freddie Mac, Government Sponsored Enterprises (hereinafter: "GSE"), the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the issue is performed by other financial institutions, the security is backed by the mortgages alone. The large issuers of securitized assets are the GSE's who have a high credit rating. The GSE's are sponsored by the U.S. Government and are supervised by it. There is, however, no explicit guarantee on the part of the U.S. Government to the GSE's.

Mortgage loans, grant the private borrower the right of early repayment at any given time. As a result, the investors have interest exposure (early repayment), as well as exposure to the condition in the real estate market and the economy in general.

Collateralized Mortgage Obligation - CMO. A type of structured bond, backed by a portfolio of mortgage loans of private borrowers in the United States. The CMO is divided into tranches. Each tranche represents a bond security entitled to receive interest and repayment of principal before or after other bonds in the CMO, so that each bond reflects a different maturity period and interest risk.

Where the CMO is issued by GNMA or GSE's, the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the CMO is issued by other financial institutions, the bond is backed by the mortgages alone and preference is given to bonds high rated for payments of principal and interest over the other tranches given a lower rating.

CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

FNMA (Fannie Mae): a public corporation under the sponsorship of the U.S. Government that purchases mortgages, securitizes them and sells them on the open market (the corporation does not carry a U.S. Government guarantee).

FHLMC (Freddie Mac): an agency branched to the U.S. Government that purchases mortgages, securitizes them and sells them to the public (the agency does not carry a U.S. Government guarantee).

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

12. Securities (continued)

F. Additional details (consolidated) regarding mortgage and asset backed bonds

	December 31 ,2023			
	Amortized cost	Unrealized gains from adjustment to fair value[(1)]	Unrealized losses from adjustment to fair value[(1)]	Fair value
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds[(2)]				
Mortgage pass-through bonds:	199	-	12	187
of which:				
Bonds guaranteed by GNMA	148	-	6	142
Bonds issued by FHLMC and FNMA	51	-	6	45
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	4,258	18	478	3,798
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	4,258	18	478	3,798
Total available-for-sale MBS bonds	**4,457**	**18**	**490**	**3,985**
Held-to-maturity bonds[(2)]				
Mortgage pass-through bonds:	34	-	2	32
of which:				
Bonds guaranteed by GNMA	8	-	-	8
Bonds issued by FHLMC and FNMA	26	-	2	24
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	3,609	7	411	3,205
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	3,609	7	411	3,205
Total held-to-maturity MBS bonds	**3,643**	**7**	**413**	**3,237**
Total mortgage-backed bonds (MBS)	**8,100**	**25**	**903**	**7,222**
2.Asset-backed available-for-sale bonds (ABS):				
Total-Asset-backed available-for-sale bonds (ABS)	1,670	7	8	1,669
Of which collateralized bonds CLO	1,670	7	8	1,669
Total mortgage and asset-backed bonds	**9,770**	**32**	**911**	**8,891**

Footnotes:

(1) For available for sale bonds-accumulated other comprehensive income.

(2) No data is included for the balance of allowance for credit loss, because, as stated, no such allowance was required as of December 31, 2023.

12. Securities (continued)

F. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

	December 31 ,2022			
	Amortized cost	Unrealized gains from adjustment to fair value(1)	Unrealized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds(2)				
Mortgage pass-through bonds:	251	-	17	234
of which:				
Bonds guaranteed by GNMA	194	-	10	184
Bonds issued by FHLMC and FNMA	57	-	7	50
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	4,053	1	581	3,473
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	4,053	1	581	3,473
Total available-for-sale MBS bonds	**4,304**	**1**	**598**	**3,707**
Held-to-maturity bonds(2)				
Mortgage pass-through bonds:	39	-	2	37
of which:				
Bonds guaranteed by GNMA	8	-	-	8
Bonds issued by FHLMC and FNMA	31	-	2	29
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	3,218	1	406	2,813
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	3,217	1	406	2,812
Total held-to-maturity MBS bonds	**3,257**	**1**	**408**	**2,850**
Total mortgage-backed bonds (MBS)	**7,561**	**2**	**1,006**	**6,557**
2.Asset-backed available-for-sale bonds (ABS):				
Total-Asset-backed available-for-sale bonds (ABS)	1,507	-	59	1,448
Of which collateralized bonds CLO	1,506	-	59	1,447
Of which Asset-backed bond (ABS)	1	-	-	1
Total mortgage and asset-backed bonds	**9,068**	**2**	**1,065**	**8,005**

Footnotes:

(1) For available for sale bonds-accumulated other comprehensive income.

(2)No data is included for the balance of allowance for credit loss, because, as stated, no such allowance was required as of December 31, 2022.

12. Securities (continued)

F. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

Additional details regarding mortgage and asset backed bonds in unrealized loss position

	December 31 ,2023			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
A. Mortgage pass-through bonds				
Bonds guaranteed by GNMA	-	-	130	6
Bonds issued by FHLMC and FNMA	-	-	45	6
Total mortgage-backed pass-through bonds	**-**	**-**	**175**	**12**
B.Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	666	8	2,147	470
Total other mortgage-backed bonds	**666**	**8**	**2,147**	**470**
Total available-for-sale MBS	**666**	**8**	**2,322**	**482**
Held-to-maturity bonds				
A.Mortgage pass-through bonds:				
Bonds guaranteed by GNMA	-	-	3	(1)-
Bonds issued by FHLMC and FNMA	-	-	24	2
Total mortgage-backed pass-through bonds	**-**	**-**	**27**	**2**
B. Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	324	3	2,408	408
Total other mortgage-backed bonds	**324**	**3**	**2,408**	**408**
Total held-to-maturity MBS bonds	**324**	**3**	**2,435**	**410**
Total mortgage-backed bonds (MBS)	**990**	**11**	**4,757**	**892**
2. Asset-backed available-for-sale bonds (ABS)				
Collateralized bonds CLO	-	-	690	8
Total asset-backed available-for-sale bonds (ABS)	**-**	**-**	**690**	**8**
Total mortgage and asset-backed bonds	**990**	**11**	**5,447**	**900**

Footnote:
(1) Amount lower than NIS 1 million

12. Securities (continued)

F. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

Additional details regarding mortgage and asset backed bonds in unrealized loss position (continued)

	December 31 ,2022			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
A.Mortgage pass through bonds:				
Bonds guaranteed by GNMA	184	10	-	-
Bonds issued by FHLMC and FNMA	25	2	25	5
Total mortgage backed pass through bonds	**209**	**12**	**25**	**5**
B. Other Mortgage-Backed Securities (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	1,700	174	1,616	407
Total other mortgage-backed bonds	**1,700**	**174**	**1,616**	**407**
Total available-for-sale MBS bonds	**1,909**	**186**	**1,641**	**412**
Held-to-maturity bonds				
A.Mortgage pass-through bonds:				
Bonds guaranteed by GNMA	6	(1)-	-	-
Bonds issued by FHLMC and FNMA	1	(1)-	28	2
Total mortgage-backed pass-through bonds:	**7**	**-**	**28**	**2**
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	1,227	173	1,451	233
Total other mortgage-backed bonds	**1,227**	**173**	**1,451**	**233**
Total held-to-maturity MBS bonds	**1,234**	**173**	**1,479**	**235**
Total mortgage-backed bonds (MBS)	**3,143**	**359**	**3,120**	**647**
2.Asset-backed available-for-sale bonds (ABS)				
Collateralized bonds CLO	1,125	47	283	12
Of which Asset-backed bond (ABS)	1	(1)-	-	-
Total asset-backed available-for-sale bonds (ABS)	**1,126**	**47**	**283**	**12**
Total mortgage and asset backed bonds	**4,269**	**406**	**3,403**	**659**

Footnote:
(1) Amount lower than NIS 1 million

G. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of NIS 3,110 million (December 31, 2022: NIS 2,703 million). The balance of the said bonds included as of December 31, 2023, unrealized net losses in the amount of NIS 10 million (December 31, 2022: unrealized net losses of NIS 72 million).

H. **Available-for-sale bonds.** As from January 1, 2022, the Bank is applying the directives of the Supervisor of Banks requiring the adoption in full of accounting principles accepted by US banks in the matter of "financial instruments – credit losses", by which the Bank is required to recognize an allowance for credit losses for impairment related to credit loss.

Whereas the Bank and the relevant subsidiaries have no intention of selling available-for-sale bonds that are in an unrealized loss position, no impairment in value has been recognized in their respect in the profit and loss statement. Furthermore, based on a performed assessment, the Bank and the relevant subsidiaries have not recognized an allowance for credit loss for the said bonds. All that stated above, excluding an allowance for impairment of value of approx. NIS 24 million in 2023 (2022 – approx. NIS 45 million).

Held-to-maturity bonds. As from January 1, 2022, the Bank is applying the directives of the Supervisor of Banks requiring the adoption in full of accounting principles accepted by US banks in the matter of allowance for current expected credit losses (CECL), as discussed in Note 1 (e). The Bank and the relevant subsidiaries have not recognized an allowance for credit loss for most of the bonds held in the held-to-maturity portfolio, principally Israeli government bonds and US government bonds. As of December 31, 2022 and 2023, an allowance for credit loss exists for other bonds in a negligible amount.

I. **Fair value presentation.** The balances of securities as of December 31, 2023, and December 31, 2022, include securities amounting to NIS 44,358 million and NIS 28,251 million, respectively, that are presented at fair value.

12. Securities (continued)

J. Data regarding non-accruing problematic bonds - consolidated

	December 31, 2023	December 31, 2022
	In NIS millions	
Recorded amount of non accruing interest income problematic bonds	-	1

K. VISA Inc. shares

On November 2, 2015, VISA Inc. Company (hereinafter: "VISA Inc.") and VISA Europe Ltd. (hereinafter: "VISA Europe") announced the signing of an agreement, according to which, VISA Inc. would acquire VISA Europe from the principal members holding its shares (hereinafter: "the transaction").

On June 21, 2016, the consideration for the transaction was received, which included, inter alia, preferred shares blocked for periods of between four and twelve years, convertible into VISA Inc. shares. The consideration for the transaction was divided between ICC (approx. 68% of the consideration of the transaction), and Discount Bank (approx. 24.9% of the consideration of the transaction) and the First International Bank (hereinafter: "the parties"), all having the status of "Principal Member" of VISA.

Upon receipt of the preferred shares, they were recognized at their fair value as of that date (being the market value of the VISA Inc. shares that would be received after conversion of the preferred shares, net of a 50% coefficient, based on the estimate of the Bank on the effect of the locking up of the shares and of the effect of certain uncertainties relating to the conversion mechanism).

The first tranche of the preferred shares was converted in September 2020. After being released from blockage, additional shares held by ICC and by the Bank were realized in the third quarter of 2022, in a total amount of approx. NIS 57 million. Net profit of NIS 24 million were recorded in the third quarter for the said realization (net of the tax effect and FIBI’s share). Following the aforementioned release, ICC retained non-listed preferred shares, the total value of which (including the share of the ICC owner banks) at the reporting date is assessed at approx. NIS 88 million ("naïve value"). The equity value of these shares, which are stated at the cost method, is NIS 14 million. It is clarified that the conversion ratio of the preferred shares may decrease in the future, depending on pending claims existing against VISA, relating to the operations of VISA Europe.

The division was made and would be made in the future according to an agreed division mechanism established by the parties.

L. Zim shares

The Bank and MDB had received in the past shares in ZIM Combined Shipping Services Ltd. (hereinafter: "ZIM"), as part of a debt arrangement, which were recorded at zero value. According to a report by ZIM, the issue of ZIM shares on the New York Stock Exchange (NYSE) was concluded on February 1, 2021. Lock-up arrangements applied to the said shares, which terminated on July 26, 2021, and the process of realization of these shares began. MDB and Discount Bank have realized their share holdings in full. For these realizations, a pre-tax gain of NIS 124 million was recorded in 2021.

M. Moving bonds to the held-to-maturity portfolio

On May 17, 2022, the Bank, IDB Bank and MDB moved bonds from the available-for-sale portfolio to the held-to-maturity portfolio, in a total amount of approx. NIS 4.5 billion. As required by the reporting instructions, the unrealized loss on adjustment to fair value of the said bonds at the transfer date, in a total amount of NIS 450 million, is continued to be presented in other comprehensive income and is amortized to profit and loss over the remaining lives of the bonds as an adjustment of yield. Until December 31, 2023, a total of NIS 117 million was amortized to profit and loss.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses

General. Debts – in this Note: credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, securities borrowed or purchased under agreements to resell and assets for the Maof market activity.

It is noted, that Note 31 presents the details included in this Note, as well as an extended discussion thereof.

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated

	December 31, 2023					
	Credit to the public					
	Commercial(1)	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis	149,114	347	1,217	150,678	59,895	210,573
Examined on a group basis	(1)10,308	69,154	32,801	112,263	63	112,326
Total debts	**159,422**	**69,501**	**34,018**	**262,941**	**59,958**	**322,899**
Of which:						
Non-accruing debts	1,907	259	218	2,384	-	2,384
Debts in arrears of 90 days or more	76	-	43	119	-	119
Other problematic debts	6,030	103	454	6,587	-	6,587
Total Problematic debts	**8,013**	**362**	**715**	**9,090**	**-**	**9,090**
Allowance for Credit Losses for debts:						
Examined on a specific basis	2,580	6	6	2,592	39	2,631
Examined on a group basis	385	332	905	1,622	-	1,622
Total allowance for Credit Losses	**2,965**	**338**	**911**	**4,214**	**39**	**4,253**
Of which: For non-accruing debts	370	13	122	505	-	505
Of which: For other problematic debts	421	1	70	492	-	492

Footnote:

(1) The balance of commercial debts includes housing loans in the amount of NIS 97 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.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated (continued)

	December 31, 2022					
	Credit to the public				Banks and Governments Held-to-maturity and available-for-sale-bonds	Total
	Commercial[1]	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total		
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis	134,873	336	1,458	136,667	47,453	184,120
Examined on a group basis	[1]9,989	64,989	32,643	107,621	-	107,621
Total debts	**144,862**	**65,325**	**34,101**	**244,288**	**47,453**	**291,741**
Of which:						
Non-accruing debts	1,210	229	81	1,520	-	1,520
Debts in arrears of 90 days or more	70	-	45	115	-	115
Other problematic debts	4,592	84	392	5,068	-	5,068
Total Problematic debts	**5,872**	**313**	**518**	**6,703**	**-**	**6,703**
Allowance for Credit Losses for debts:						
Examined on a specific basis	[2]1,910	13	22	1,945	29	1,974
Examined on a group basis	[2]302	253	709	1,264	-	1,264
Total allowance for Credit Losses	**2,212**	**266**	**731**	**3,209**	**29**	**3,238**
Of which: For non-accruing debts	205	13	30	248	-	248
Of which: For other problematic debts	268	1	128	397	-	397

Footnotes:

(1) 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.

(2) Reclassified following improvement of data.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - the Bank

	Credit to the public					
	Commercial[1]	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds	Total
	In NIS millions					
	December 31, 2023					
Recorded amount of debts:						
Examined on a specific basis	94,889	-	-	94,889	47,231	142,120
Examined on a collective basis	[1]7,988	56,547	13,304	77,839	-	77,839
Total debts	**102,877**	**56,547**	**13,304**	**172,728**	**47,231**	**219,959**
Of which:						
Non-accruing debts	1,234	151	13	1,398	-	1,398
Debts in arrears of 90 days or more	39	-	21	60	-	60
Other problematic debts	2,669	35	35	2,739	-	2,739
Total Problematic debts	**3,942**	**186**	**69**	**4,197**	**-**	**4,197**
Allowance for Credit Losses for debts:						
Examined on a specific basis	1,752	-	-	1,752	37	1,789
Examined on a collective basis	211	258	302	771	-	771
Total allowance for Credit Losses	**1,963**	**258**	**302**	**2,523**	**37**	**2,560**
Of which: non-accruing debts	241	11	3	255	-	255
Of which: for other problematic debts	343	1	12	356	-	356

Footnote:

(1) The balance of commercial debts includes housing loans in the amount of NIS 84 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.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - the Bank (continued)

	Credit to the public					
	Commercial[1]	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds	Total
	In NIS millions					
	December 31, 2022					
Recorded amount of debts:						
Examined on a specific basis	83,776	-	-	83,776	35,755	119,531
Examined on a collective basis	[1]8,420	53,743	14,063	76,226	-	76,226
Total debts	**92,196**	**53,743**	**14,063**	**160,002**	**35,755**	**195,757**
Of which:						
Non-accruing debts	756	143	13	912	-	912
Debts in arrears of 90 days or more	33	-	24	57	-	57
Other problematic debts	2,217	42	46	2,305	-	2,305
Total Problematic debts	**3,006**	**185**	**83**	**3,274**	**-**	**3,274**
Allowance for Credit Losses for debts:						
Examined on a specific basis	1,249	-	-	1,249	28	1,277
Examined on a collective basis	170	187	274	631	-	631
Total allowance for Credit Losses	**1,419**	**187**	**274**	**1,880**	**28**	**1,908**
Of which: non-accruing debts	147	11	3	161	-	161
Of which: for other problematic debts	211	1	14	226	-	226

Footnote:

(1) The balance of commercial debts includes housing loans in the amount of NIS 132 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.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

2. Movement in the balance of allowance for credit losses - consolidated

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds[2]	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2020	2,817	258	984	4,059	15	4,074
Credit loss expenses (expenses release)	(534)	6	(172)	(700)	7	(693)
Accounting write-offs	(336)	(8)	(283)	(627)	-	(627)
Collection of debts written-off in previous years	324	2	245	571	-	571
Net accounting write-offs	(12)	(6)	(38)	(56)	-	(56)
Adjustments from translation of financial statements	(13)	-	(1)	(14)	-	(14)
Balance of allowance for credit losses, as at December 31, 2021	**2,258**	**258**	**773**	**3,289**	**22**	**3,311**
Adjustment to the opening balance, net of tax due to the effect of the initial application[1]	183	(32)	-	151	9	160
Credit loss expenses	182	63	162	407	-	407
Accounting write-offs	(401)	(5)	(372)	(778)	-	(778)
Collection of debts written-off in previous years	270	-	257	527	-	527
Net accounting write-offs	(131)	(5)	(115)	(251)	-	(251)
Adjustments from translation of financial statements	33	1	1	35	-	35
Balance of allowance for credit losses, as at December 31, 2022	**2,525**	**285**	**821**	**3,631**	**31**	**3,662**
Adjustment to the opening balance due to the effect of the initial application[1]	16	-	34	50	-	50
Credit loss expenses	1,010	75	408	1,493	9	1,502
Accounting write-offs	(402)	(3)	(527)	(932)	(1)	(933)
Collection of debts written-off in previous years	226	-	267	493	-	493
Net accounting write-offs	(176)	(3)	(260)	(439)	(1)	(440)
Adjustments from translation of financial statements	8	1	(1)	8	-	8
Balance of allowance for credit losses, as at December 31, 2023	**3,383**	**358**	**1,002**	**4,743**	**39**	**4,782**
Of which: for off-balance sheet credit instruments						
as at December 31, 2021	180	-	69	249	-	249
as at December 31, 2022	313	19	90	422	2	424
as at December 31, 2023	418	20	91	529	-	529

Footnotes:

(1) ICC initially implemented the US GAAP with respect to allowances for current expected credit losses (CECL) as from January 1, 2023, see Note 1 C (5) (1).

(2) In the year 2021 , the column includes only governments and banks.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

2. Movement in the balance of allowance for credit losses - the Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds[2]	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2020	1,921	219	429	2,569	15	2,584
Credit loss expenses (expenses release)	(461)	6	(142)	(597)	7	(590)
Accounting write-offs	(182)	(8)	(117)	(307)	-	(307)
Collection of debts written-off in previous years	222	2	120	344	-	344
Net accounting write-offs	40	(6)	3	37	-	37
Balance of allowance for credit losses, as at December 31, 2021	**1,500**	**219**	**290**	**2,009**	**22**	**2,031**
Adjustment to the opening balance due to the effect of the initial application[1]	172	(56)	(3)	113	8	121
Credit loss expenses	76	42	43	161	-	161
Accounting write-offs	(232)	(5)	(130)	(367)	-	(367)
Collection of debts written-off in previous years	176	-	122	298	-	298
Net accounting write-offs	(56)	(5)	(8)	(69)	-	(69)
Balance of allowance for credit losses, as at December 31, 2022	**1,692**	**200**	**322**	**2,214**	**30**	**2,244**
Credit loss expenses	710	74	77	861	8	869
Accounting write-offs	(222)	(3)	(151)	(376)	(1)	(377)
Collection of debts written-off in previous years	131	-	113	244	-	244
Net accounting write-offs	(91)	(3)	(38)	(132)	(1)	(133)
Balance of allowance for credit losses, as at December 31, 2023	**2,311**	**271**	**361**	**2,943**	**37**	**2,980**
Of which: for off-balance sheet credit instruments						
as at December 31, 2021	160	-	25	185	-	185
as at December 31, 2022	273	13	48	334	2	336
as at December 31, 2023	348	13	59	420	-	420

Footnotes:
(1) Effect of initial implementation of US GAAP regarding allowance for current expected credit losses (CECL). See also Note 1(c)(5) to the financial statements.
(2) In the year 2021, the column includes only governments and banks.

14. Credit granted to Governments

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
	in NIS millions			
Credit to Israel government	1,297	913	1,297	911
Credit to foreign governments	1,776	1,686	1,776	1,686
Total credit granted to Governments	**3,073**	**2,599**	**3,073**	**2,597**

15. Investment in Investee Companies and Details on These Companies

A. Consolidated

	December 31, 2023			December 31, 2022		
	Associates	Consolidated subsidiaries	Total	Associates	Consolidated subsidiaries	Total
	In NIS millions					
Total Shares stated on equity basis(1)	**469**	**-**	**469**	**484**	**-**	**484**
Other investments:						
Shareholders' loans	2	-	2	2	-	2
Total other investments	**2**	**-**	**2**	**2**	**-**	**2**
Total investments	**471**	**-**	**471**	**486**	**-**	**486**
Includes:						
Earnings accumulated since January 1, 1992	55	-	55	84	-	84
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustment for Employee benefits	-	-	-	-	-	-
Details Regarding Goodwill:						
Original amount	-	305	305	-	305	305
Book value(2)	-	161	161	-	162	162

Footnotes:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

(2) Balances of goodwill for consolidated subsidiaries are presented in the item "Intangible assets and goodwill".

15. Investment in Investee Companies and Details on These Companies (continued)

B. The Bank

	December 31, 2023			December 31, 2022		
	Associates	Consolidated subsidiaries	Total	Associates	Consolidated subsidiaries	Total
	in NIS millions					
Total Shares stated on equity basis (including goodwill)[1]	45	12,979	13,024	41	11,051	11,092
Other investments:						
Subordinated debt notes and Capital notes	–	1,758	1,758	–	1,758	1,758
Shareholders' loans	2	–	2	2	–	2
Total investments	**47**	**14,737**	**14,784**	**43**	**12,809**	**12,852**
Includes:						
Earnings accumulated since January 1, 1992	43	11,001	11,044	38	9,446	9,484
Items accumulated in shareholders' equity since January 1, 1992:						
Net adjustments for presentation of bonds available for sale at fair value	–	(812)	(812)	–	(871)	(871)
Adjustments from translation of financial statements	–	(76)	(76)	–	(225)	(225)
The State's bonus to the employees (privatization)	–	32	32	–	32	32
Net adjustments on the hedging of cash flows	–	(9)	(9)	–	(20)	(20)
Adjustment for Employee benefits	–	(44)	(44)	–	(26)	(26)
Transactions with minority	–	(8)	(8)	–	(8)	(8)
Details Regarding Goodwill:						
Original amount	–	282	282	–	282	282
Book value	–	142	142	–	142	142

Footnote:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

The Bank's share of profit or loss of investee companies

	Consolidated			The Bank		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Bank's share in profit of investee companies (consolidated – associates)	(11)	30	28	1,619	1,304	1,244
Provision for taxes:						
Current taxes	–	–	–	50	98	28
Deferred taxes	–	3	8	105	3	58
Total provision for taxes	**-**	**3**	**8**	**155**	**101**	**86**
Bank's share in profit (loss) net of tax effect of investee companies (consolidated - associates)	**(11)**	**27**	**20**	**1,464**	**1,203**	**1,158**

15. Investment in Investee Companies and Details on These Companies (continued)

C. Information on principal investee companies

Name of Company	Details of company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares Investment in shares Equity basis[1]	
		2023	2022	2023	2022	2023	2022
		In %				In NIS millions	
1. Consolidated Subsidiaries:							
Discount Bancorp, Inc.[2]	Holding company, U.S.A.	100.00	100.00	100.00	100.00	30	30
Israel Discount Bank of New York [3]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	4,402	3,915
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	4,975	4,053
Israel Credit Cards Ltd.[4]	Credit card service	[10]71.83	[10]71.83	79.00	79.00	1,468	1,164
Discount Capital Ltd.	Underwriting and investments	100.00	100.00	100.00	100.00	1,395	1,280
Companies held by Israel Discount Bank of New York:							
IDBNY Realty (Delaware) Inc, [5]	Holding company, USA	100.00	100.00	100.00	100.00	1,505	1,444
IDB Realty LLC [6]	Investment company, USA	100.00	100.00	100.00	100.00	2,195	2,892
Companies held by Israel Credit Cards Ltd.:							
Diners (Club) Israel Ltd.[7]	Credit card service	100.00	100.00	100.00	100.00	359	332
Cal Mimun Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	72	168

Footnotes:

(1) Including allocated excess of cost over book value and goodwill.

(2) A holding company, wholly-owned by the Bank, which fully owns and controls Israel Discount Bank of New York.

(3) The company is owned by Discount Bancorp, Inc.

(4) For details regarding a guarantee unlimited in amount in favor of International VISA Organization, securing all of ICC's liabilities, see Note 26 C 8 below.

(5) Included in the financial statements of Israel Discount Bank of New York. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of Israel Discount Bank of New York

(6) Included in the financial statements of IDBNY Realty (Delaware), Inc. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of IDBNY Realty (Delaware), Inc

(7) For details regarding the holding of a controlling interest in Diners, see Note 36 F below.

(8) For details, see Note 10 A.

(9) Goodwill.

(10) For the period until the date loss of material influence in FIBI.

(11) The dividend distributed by ICC in 2023, was lower than the dividend distributed by ICC (Finance) in the same year.

Of which: excess of cost balance[9]		Other investments		Contribution to Net Profit attributed to Bank's shareholders		Dividend		Other items recorded in shareholders' equity[8]		Guarantees issued for consolidated subsidiaries in favor of entities outside the group	
2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
In NIS millions											
-	-	-	-	(1)	(1)	-	-	2	1	-	-
-	-	-	-	178	348	-	-	(507)	(762)	63	215
1	1	520	520	977	601	-	-	(481)	(425)	-	
142	142	-	-	204	78	[11](19)	230	(45)	(10)	11	11
18	18	1,171	1,171	89	85	-	-	6	(4)	1	1
-	-	-	-	9	10	-	-	49	(1)	-	-
-	-	-	-	45	50	845	1,900	(371)	(466)	-	-
-	-	-	-	24	22	-	-	-	-	-	-
-	-	-	-	(2)	89	[11]72	72	-	-	-	-

D. **Agreement of shareholders of Discount Capital Underwriting Ltd.** At the closing date for the merger of Clal Finance Underwriting Ltd. with and into Discount Capital Underwriting, an agreement between the shareholders of Discount Capital Underwriting, regulating the relations between the shareholders of the Company, entered into effect. It stipulated, *inter alia*, limitations on the transferability of the shares held, and a CALL option was granted to Discount Capital and a PUT option to the minority shareholders of Discount Underwriting, exercisable as from November 15, 2019. An agreement was signed on February 13, 2020, with one of the minority shareholders ("the shareholder") in Discount Capital Underwriting Ltd. ("the Company"), under which, inter alia:

- The shareholder shall exercise the put option for 10% of the shares of the Company subsequent to approval of the financial statements of Discount Capital Underwriting as of March 31, 2020 (In June 2020, Discount Capital acquired the shares, as stated);
- The block up period for the balance of the shares held by it (approx. 21%) shall be extended to December 31, 2021, at the consideration determined by the parties, subject to the right of the shareholder to shorten the block up period, until December 31, 2020.
- On May 25, 2022, the block up period for the exercise of a put option granted to the shareholder of Discount Capital Underwriting ("the shareholder") was extended until December 31, 2023, with respect to the balance of Discount Capital Underwriting shares held by him, in consideration for that determined by the parties, subject to the right of the shareholder to shorten the block up period until December 31, 2022. At December 31, 2023, the shareholder held approx. 16% of the shares of Discount Capital Underwriting.

An agreement entered into effect on August 28, 2022, according to which the shareholders of Discount Underwriting sold, pro-rata, approx. 21.65% of the company's shares ("the sold shares") to two Senior Officers of Discount Capital Underwriting ("the purchasers"). The consideration for the transaction is not material. Upon consummation of the transaction, the holdings of Discount Capital were reduced to 50.1%, and an Addendum to the company shareholders agreement entered into effect, according to which, the purchasers joined as parties to the shareholders agreement, and Discount Capital Ltd. was granted a CALL option, and each of the purchasers were granted a PUT option with respect to the sold shares.

On July 31, 2023, Discount Capital acquired approx. 10.58% of the share capital of Discount Underwriting from a different minority shareholder, comprising the total holdings of that minority shareholder in the company. The consideration for the transaction is not material. Following the consummation of the transaction, Discount Capital owns approx. 60.68% of the share capital of Discount Underwriting.

16. Buildings and Equipment

A. Composition

	Consolidated				
	Buildings and land [(1)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2021	2,872	[(2)]916	[(2)]1,078	[(2)]3,922	8,788
Additions	559	52	116	431	1,158
Translation adjustments	15	2	6	14	37
Disposals	(247)	(78)	(1)	(2)	(328)
Balance as at December 31, 2022	**3,199**	**892**	**1,199**	**4,365**	**9,655**
Additions	399	135	174	652	1,360
Translation adjustments	4	1	2	4	11
Disposals	(212)	(103)	(2)	(140)	(457)
Balance as at December 31, 2023	**3,390**	**925**	**1,373**	**4,881**	**10,569**
Depreciation and impairment loss:					
Balance as at December 31, 2021	1,198	637	[(2)]825	[(2)]2,727	5,387
Depreciation for the year	53	65	85	376	579
Translation adjustments	1	1	3	8	13
Disposals	(151)	(74)	(1)	(2)	(228)
Balance as at December 31, 2022	**1,101**	**629**	**912**	**3,109**	**5,751**
Depreciation for the year	63	43	113	404	623
Translation adjustments	–	–	1	1	2
Disposals	(108)	(93)	(1)	(140)	(342)
Balance as at December 31, 2023	**1,056**	**579**	**1,025**	**3,374**	**6,034**
Carrying amount:					
Balance as at December 31, 2021	**1,674**	**279**	**253**	**1,195**	**3,401**
Balance as at December 31, 2022	**2,098**	**263**	**287**	**1,256**	**3,904**
Balance as at December 31, 2023	**2,334**	**346**	**348**	**1,507**	**4,535**
Average weighted depreciation rate for year 2022	4.4%	10.4%	21.5%	21.3%	15.3%
Average weighted depreciation rate for year 2023	4.0%	8.7%	20.8%	19.7%	12.9%

Footnotes:

(1)Includes installations and leasehold improvements.

(2)Reclassification of the data within the Note as part of improving data quality.

16. Buildings and Equipment (continued)

A. Composition (continued)

	The Bank				
	Buildings and land [(1)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2021	[(2)]1,971	432	[(2)]793	[(2)]2,438	5,634
Additions	356	20	84	235	695
Disposals	(240)	(76)	-	(2)	(318)
Balance as at December 31, 2022	**2,087**	**376**	**877**	**2,671**	**6,011**
Additions	307	97	120	320	844
Disposals	(49)	(69)	(1)	(123)	(242)
Balance as at December 31, 2023	**2,345**	**404**	**996**	**2,868**	**6,613**
Depreciation and impairment loss:					
Balance as at December 31, 2021	[(2)]864	273	[(2)]602	[(2)]1,743	3,482
Depreciation for the year	30	44	57	235	366
Disposals	(149)	(73)	-	(2)	(224)
Balance as at December 31, 2022	**745**	**244**	**659**	**1,976**	**3,624**
Depreciation for the year	38	28	77	242	385
Disposals	(46)	(69)	(1)	(123)	(239)
Balance as at December 31, 2023	**737**	**203**	**735**	**2,095**	**3,770**
Carrying amount:					
Balance as at December 31, 2021	**1,107**	**159**	**191**	**695**	**2,152**
Balance as at December 31, 2022	**1,342**	**132**	**218**	**695**	**2,387**
Balance as at December 31, 2023	**1,608**	**201**	**261**	**773**	**2,843**
Average weighted depreciation rate for year 2022	3.5%	9.8%	19.9%	20.5%	14.2%
Average weighted depreciation rate for year 2023	3.2%	8.4%	19.7%	19.1%	11.6%

Footnotes:
(1)Includes installations and leasehold improvements.
(2)Reclassification of the data within the Note as part of improving data quality.

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2023-2066.

16. Buildings and Equipment (continued)

	Consolidated		The Bank	
	December 31			
	2023	2022	2023	2022
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	243	224	76	58
Balance of provision for impairment loss	6	6	6	6
D. Financial leasing rights:				
Balance of non-capitalized leasehold	5	4	4	3
Balance of capitalized leasehold	55	55	40	41
E. Depreciated balance of not yet registered buildings	1,704	1,247	1,100	751
F. Depreciated balance of buildings not in use by the bank, the majority of which are rented to other parties	15	5	4	4
G. Depreciated balance of buildings and equipment designated for sale [(1)]	36	126	36	28
H. The cost of in-house development of computer software:				
The cost of software put into operation	3,550	3,192	2,547	2,326
Accumulated depreciation	(2,600)	(2,402)	(1,832)	(1,731)
Depreciable amount	**950**	**790**	**715**	**595**
Accumulated costs for software under development	294	295	34	68
Total cost of in-house development of computer software	**1,244**	**1,085**	**749**	**663**
I. Gross value of fully depreciated fixed assets still in use	3,073	2,870	1,797	1,712
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	37	1,312	37	827
Cost of equipment	18	17	18	17

Footnote:

(1) No loss on the sale of buildings and equipment held for sale in expected, in excess of the provisions created therefore.

K. Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus

As part of the preparations for the relocation of the Head Offices and operation of the Bank, ICC and MDB to the Discount Campus, the following transactions were performed:

(1) The Bank sold on March 21, 2021, the property at 17, Yehuda Halevi Street in Tel-Aviv, which serves one of the Bank's Head Office units. Transfer of the right of possession in the property took place on December 31, 2021, and the property has been leased to the Bank until July 31, 2023. Upon the transfer of possession of the property, the Bank recorded a profit of approx. NIS 38 million, net of the tax effect.

(2) On March 1, 2022, the Bank completed the sale transaction of two of its properties, located at 156 Herzl Street and 160 Herzl Street in Tel Aviv. In the first quarter of 2022 the Bank recorded a gain of approx. NIS 315 million, net of the tax effect. The property has been leased to the Bank until June 30, 2023.

(3) On March 23, 2022, ICC signed an agreement for the sale of the ICC Building in Givatayim, in consideration for NIS 336 million, with the addition of VAT and betterment levies. In view of the conclusion of the transaction, on March 30, 2023, ICC recognized a net of tax gain of NIS 231 million (the Bank's share in this amount is approx. NIS 142 million). At the same time, ICC and the purchaser signed agreements that would enable ICC to rent the building in Givatayim until the time of relocating to Beit ICC in Bnei Brak.

(4) On August 8, 2022, MDB's Board of Directors gave approval for the bank to enter into a transaction for the sale of space in the Jubilee Tower in Tel Aviv, which served the bank's Management and its central head office units. According to the agreement, the closure of the transaction and transfer of possession of the property was expected by June 30, 2023. MDB had an option to defer the date of transferring possession by 180 days, until December 31, 2023 (including in the number of deferrals), MDB had exercised the option in two stages and deferred the date of transfer of possession to December 31, 2023. Transfer of possession to the purchaser was completed on December 31, 2023. In the fourth quarter of 2023 MDB recognized a profit of approx. NIS 97 million, after tax effect.

16. Buildings and Equipment (continued)

L. Information on leases

1. Leases expenses

	Consolidated		The bank	
	Year 2023	Year 2022	Year 2023	Year 2022
	In NIS millions			
Depreciating the right-of-use asset with respect to finance leases	1	-	-	-
Interest expenses with respect to finance leases	(1)-	-	-	-
Total expenses with respect to finance leases	**1**	**-**	**-**	**-**
Expenses with respect to operating leases	190	184	97	96
Variable lease expenses(2)	57	40	23	16
Income with respect to subleases(3)	(5)	(3)	-	-
Total expenses with respect to leases	**242**	**221**	**120**	**112**

Footnotes:
(1) An amount lower than NIS 1 million.
(2) Includes VAT, linkage differences and interest.
(3) Expenses for leases are included in the items salaries and related expenses, and in maintenance and depreciation of building and equipment expenses in the statement of profit and loss.

2. Additional information on leases

	Consolidated		The bank	
	Year 2023	Year 2022	Year 2023	Year 2022
	In NIS millions			
Cash paid with respect to balances included in measuring the lease liabilities:				
Cash flows with respect to financing activities with respect to finance leases	1	-	-	-
Cash flows with respect to operating activities with respect to operating leases	202	205	113	119
Right-of-use assets recognized with respect to new finance leases	8	-	-	-
Right-of-use assets recognized with respect to new operating leases	83	588	46	69
Average weighted period balance (in years):				
With respect to finance leases	4.3	-	-	-
With respect to operating leases	10.0	10.3	5.1	5.4
Average weighted discount interest:				
With respect to finance leases	4.5%	0	0	0
With respect to operating leases	1.3%	1.2%	0.3%	0.3%

For details regarding the rental of assets that were realized, during the interim period prior to their possession being transferred, see section K (2) above.

3. Non-discounted cash flows and liabilities according to maturity periods

	Consolidated				The bank			
	December 31 2023		December 31 2022		December 31 2023		December 31 2022	
	Undiscounted cash flows	Lease liabilities	Undiscounted cash flows	Lease liabilities	Undiscounted cash flows	Lease liabilities	Undiscounted cash flows	Lease liabilities
	In NIS millions							
Up to 1 year	158	144	156	141	82	82	79	79
Over 1 year up to 2 years	133	120	136	124	67	66	69	69
Over 2 years up to 3 years	123	109	119	107	58	56	58	58
Over 3 years up to 4 years	97	84	96	86	39	37	39	39
Over 4 years up to 5 years	87	73	90	80	34	31	36	35
Over 5 years	739	669	796	723	186	184	222	220
Total	**1,337**	**1,201**	**1,393**	**1,261**	**466**	**456**	**503**	**500**

16. Buildings and Equipment (continued)

L. Information on leases (continued)

4. Non-discounted cash flows – liabilities for subleases[1]

	Consolidated	
	December 31 2023	December 31 2022
	Undiscounted cash flows	Undiscounted cash flows
	In NIS millions	
Up to 1 year	6	3
Over 1 year up to 2 years	6	5
Over 2 years up to 3 years	6	5
Over 3 years up to 4 years	6	5
Over 4 years up to 5 years	5	5
Over 5 years	78	81
Total	**105**	**105**

Footnote:
(1) Subleases in a subsidiary.

17. Intangible Assets and Goodwill

	Consolidated
	Goodwill[1]
	in NIS millions
Cost	
Balance as at December 31,2023, 2022 and 2021	**305**
Amortization and losses on impairment	
Balance as at December 31,2021	142
Amortization of customer relations asset	1
Balance as at December 31,2022	**143**
Amortization of customer relations asset	1
Balance as at December 31,2023	**144**
Book value	
Balance as at December 31,2021	**163**
Balance as at December 31,2022	**162**
Balance as at December 31,2023	**161**

Footnote:
(1) Goodwill recognized in business combination (goodwill recognized upon acquisition of an associate, included in the item "investment in associates").

18. Other Assets

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
Net deferred tax assets (see Note 8 G)	2,209	2,261	1,190	1,109
Excess advance tax payments over current provisions	165	58	-	-
Issue costs and discount expenses of subordinated capital notes	59	49	67	56
Income receivable	222	166	160	146
Right-of-use assets for operating leases	1,130	1,205	459	509
Surrender value of life assurance policies owned by a consolidated subsidiary	900	866	-	-
Assets for the "Maof" market operations	3	20	3	20
Gold deposit	97	93	97	93
Prepaid expenses	493	395	129	92
Other debtors and debit balances	1,139	627	655	315
Total other assets	**6,417**	**5,740**	**2,760**	**2,340**

19. Deposits from the Public

A. Type of deposits according to location of raising the deposit and type of depositor

	Consolidated		The Bank	
	December 31			
	2023	2022	2023	2022
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	64,661	(1)79,535	53,802	(1)65,948
Interest bearing	33,352	(1)37,944	27,144	(1)29,685
Total demand deposits	**98,013**	**117,479**	**80,946**	**95,633**
Time deposits	164,416	139,379	143,489	121,786
Total deposits in Israel*	**262,429**	**256,858**	**224,435**	**217,419**
* Of which:				
Private individuals deposits	119,148	116,356	100,150	98,498
Institutional bodies deposits	29,005	29,655	24,111	22,676
Corporations and others deposits	114,276	110,847	100,174	96,245
Outside Israel				
Demand deposits:				
Non-interest bearing	5,112	6,622	-	-
Interest bearing	21,537	20,968	-	-
Total demand deposits	**26,649**	**27,590**	**-**	**-**
Time deposits	8,519	7,845	-	-
Total deposits outside Israel	**35,168**	**35,435**	**-**	**-**
Total deposits from the public	**297,597**	**292,293**	**224,435**	**217,419**

Footnote:
(1) With respect to deposits bearing interest only on part of the deposit, starting with the interim financial statements for June 30, 2023, only that part of the deposit that bears interest is presented as part of interest bearing deposits, while the remaining balance is presented as part of deposits bearing no interest. The comparative data has been reclassified accordingly.

B. Deposits from the public according to size, on a consolidated basis

	December 31	
	2023	2022
Deposit limit	Balance	
In NIS millions	In NIS millions	
Up to 1	96,203	96,125
Over 1 up to 10	70,114	69,671
Over 10 up to 100	46,953	43,702
Over 100 up to 500	32,550	34,338
Over 500	51,777	48,457
Total	**297,597**	**292,293**

20. Deposits from Banks

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	3,388	2,064	218	554
Time deposits	123	66	206	97
Central banks:				
Schedule deposits	4,473	9,731	2,900	6,403
Outside Israel				
Commercial banks:				
Deposits on demand	1,963	1,505	1,996	1,184
Schedule deposits	1,260	1,876	789	1,499
Acceptances	121	134	80	94
Total deposits from banks	**11,328**	**15,376**	**6,189**	**9,831**

21. Bonds and Subordinated Capital Notes

	Consolidated				The Bank	
	Average maturity[1]	Internal rate of return[1]	December 31		December 31	
	years	%	2023	2022	2023	2022
			in NIS millions			
Bonds and subordinated capital notes not convertible into shares:						
In non-linked Israeli currency	6.27	2.64	2,685	3,307	-	-
In Israeli currency, linked to CPI	5.31	1.25	9,864	8,258	155	192
Commercial securities in non-linked Israeli currency	-	-	-	743	-	-
In foreign currency, U.S Dollar	4.07	5.44	2,942	-	2,942	-
Total bonds and capital notes[3][4]			**15,491**	**12,308**	**3,097**	**192**

Footnotes:

(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. Period to maturity is the average of the repayments periods weighted by the cash flows discounted at the internal rate of return. Data regarding the internal rate of return and the period to maturity relates to the consolidated statements as of December 31, 2023.

(2) Of which: NIS 15,147 million in the consolidated, listed for trade on the Tel Aviv Stock Exchange (2022: NIS 11,932 million)

(3) Of which: NIS 5,068 million in the consolidated, are subordinated capital notes (2022: NIS 4,593 million)

Issuance of subordinated debt notes (Series G). On June 22, 2020, the Bank, through Manpikim, completed the process of issuing subordinated debt notes (Series G), which include a capital loss absorption mechanism (Coco), which are capital instruments classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, in a total amount of NIS 440.4 million. On April 22, 2021, the Bank, through Manpikim, completed the process of issuing of the said subordinated debt notes, in a total amount of approx. NIS 932 million. On June 28, 2021, the Bank, through Manpikim, completed the process of issuing a private placement of the said subordinated debt notes, in a total amount of approx. NIS 250 million.

21. Bonds and Subordinated Capital Notes (continued)

Issuance of subordinated debt notes (Series H). On November 29, 2021, the Bank, through Manpikim, completed the process of issuing subordinated debt notes (Series H), which include a capital loss absorption mechanism (Coco), which are capital instruments classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, in a total amount of NIS 580 million.

Issuance of subordinated debt notes (Series I). On November 28, 2022, the Bank, through Manpikim, completed the process of issuing subordinated debt notes (Series I), which include a capital loss absorption mechanism (Coco), which are capital instruments classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, in a total amount of NIS 463 million.

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, issued to institutional investors. The gross proceeds of the issue amounted to approx. US$799.48 million.

Issuance of commercial securities and bonds. On November 29, 2021, the Bank, by means of Manpikim, completed the issue of bonds (Series "O") were issued in a total amount of approx. NIS 3.1 billion and commercial securities (Series 1) in a total amount of approx. NIS 907 million.

On June 2, 2022, the Bank, by means of Discount Manpikim, completed the issue of bonds (expansion of Series "N") in a total amount of approx. NIS 1 billion, and commercial securities (Series 2) in a total amount of approx. NIS 700 million.

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.

Issue of bonds. On June 15, 2023, the Bank, through Manpikim, completed an issue of bonds (expansion of Series "N"), in a total amount of approx. NIS 1,568 million.

Issue of debt instruments. On January 18, 2024, the Bank, by means of Manpikim, completed the issue of bonds (Series "P"), in a total amount of approx. NIS 1.56 billion and commercial securities (Series 3), in a total amount of approx. NIS 1.1 billion.

22. Other Liabilities

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
	in NIS millions			
Net provision for deferred taxes (see Note 8 G)	36	24	12	12
Excess of current tax provisions over advance payments	180	134	121	70
Excess liabilities for employee benefits over assets of the plan (see Note 23 B)	2,082	2,136	1,446	1,550
Deferred income	313	275	181	188
Payables for credit card activity	10,535	10,476	1,791	2,016
Liabilities for finance leases	7	-	-	-
Liabilities for operating leases	1,201	1,261	456	500
Allowance for credit losses for guarantees and facilities	529	424	420	336
Expenses payable	1,504	(1)1,288	561	450
Liabilities for "Maof" market operations	3	20	3	20
Liabilities stemming from "Market making" activity	834	671	834	671
Other payables and receivables	1,659	(1)1,386	406	342
Total other liabilities	**18,883**	**18,095**	**6,231**	**6,155**

Footnote:
(1) Reclassification of the data within the Note as part of improving data quality.

23. Employee Benefits

A. Following is a description of the main benefits granted to employees of the group

(1) The liability of the Bank and its subsidiaries for severance pay to their employees, based on the customary one month's salary for each year of employment, is mainly covered by deposits with severance pay funds and by insurance policies and pension funds, and the balance is recorded as a provision in the Bank's books. Most of the amounts accumulated in insurance policies and pension funds are not included in the balance sheet since they are not controlled by the Bank or its subsidiaries.

(2) Members of the Bank's Management are entitled to the customary severance payments and an "adjustment"/non-competition award of between 4 to 8 months' salary upon retirement, pursuant to individual agreements signed with them, and for which adequate provisions have been included (see section E below, in the matter of the approved compensation policy). The pension liability of a foreign consolidated company, based on actuarial computations, is covered by current deposits into a recognized foreign pension fund.

(3) In certain consolidated banking subsidiaries, several officers are entitled to "adjustment" bonus" equal to 6 to 9 months' salaries, and for which adequate provisions have been included.

(4) The Bank and its subsidiaries are not permitted to withdraw these deposits except for making severance payments.

(5) Employees of the Bank and its consolidated subsidiaries in Israel are entitled to annual vacation as provided by labor agreements in force, and subject to the guidelines of the Annual Vacation Law 5711- 1951. The liability for vacation pay is recognized over the period of employment in which the right to paid vacation accumulates. The liability is determined on the basis of the most recent salary in the reporting period with the addition of related payments.

(6) Employees of the Bank and its subsidiaries are entitled to certain benefits after retirement. The said liability is computed on an actuarial basis. In addition, some of the employees who accepted early retirement exchanged their retirement award with a pension for a determined period. It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees who were engaged as or converted to the status of tenured employees, subsequently to January 1, 2012. These benefits match now the terms applying to employees under this agreement, and consist of presents for the holidays and medical expenses.The wage agreement dated February 21, 2019, reduces the benefits granted to pensioners and to all tenured employees – cancellation of reimbursement of medical expenses and of a daily newspaper.

(7) Several of the companies have adopted employee compensation plans, according to which the General Managers and/or other employees of these companies are entitled to a bonus, the amount of which is based upon their business results. The necessary provisions for these bonuses are included in the financial statements.

(8) **"Annuity" type retirement plan.** A number of retirees in the period from 2007 to 2011 (29 employees as of December 31, 2023) have chosen the full or combined annuity option, under which, the capital payment is converted into a series of monthly payments or into a combination of a capital payment and a series of monthly payments. The plan is limited in advance to a number of payments predetermined by the retiree (in the range of a minimum of 120 payments and the maximum of 300 payments).

(9) **2011 retirement plan.** A part of the retirees within the framework of the 2011 retirement plan (121 employees as of December 31, 2023), have elected the monthly pension option. The aforesaid liability is fully covered by the balance of the provision for severance pay. For pension payable to the retiree and/or his/her spouse upon reaching the age of 85 years (all according to the route chosen by the retiree), the Bank has purchased insurance coverage that would secure the payment of the said pension and which will be paid directly by the insurance company.

(10) **2014, 2016 and 2018 retirement plans.** Some of the retirees under the 2014 retirement plan (1 employee as of December 31, 2023), 2016 retirement plan (2 employees as of December 31, 2023) and the 2018 retirement plan (2 employees as of December 31, 2023), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment. For pension payments due to a retiree who was sixty years of age or over at retirement date, or upon reaching the age of sixty, the Bank had purchased (or will purchase when the employee reaches the age of sixty) insurance coverage that ensures the payment of the said pension, which would be payable directly by the insurance company. Pension payments due until the retiree reaches the age of sixty, are payable directly by the Bank. The capital payment, the pension payments by the Bank and the cost of the purchased insurance policy, are limited to the amount that would have been paid to the retiree had he elected the full capital payment option.

According to the said plans, upon the retiree reaching the age of 60, the Bank purchases coverage in insurance for the liability.

(11) **Nonrecurring awards according to special collective labor agreements dated December 23, 2021.** On December 23, 2021, special collective labor agreements in the matter of extension of validity of the Labor Charter and industrial peace for five years were signed by the Bank, the Employees Representative Committee and the New General Federation of Labor – MAOF Federation. In addition, special collective labor agreements were signed in the matters of salary and awards for three years, the transfer to the Discount Campus of the Bank's Head Office and additional units, and in the matter of redemption of the Jubilee Award, Jubilee vacation and Jubilee vacation pay (hereinafter: "the agreements").

23. Employee Benefits (continued)

Under the said agreements, it has been decided to pay nonrecurring awards, as follows:

- Consent award on the transfer to the Campus – employees who had been employed by the Bank at date of signature of the agreement, received in the course of 2022 a nonrecurring award for the consent to the transfer to the Discount Campus and the changes involved in such transfer. The provision for the consent award in 2021 amounted to approx. NIS 93 million (pre-tax effect).
- Awards for changes made to the Labor Charter –
  - For changes agreed upon by the parties in the agreement for extension of the validity of the Labor Charter, clerk grade employees of the "tenured" employee status, who had been employed by the Bank at date of signature of the agreement, received a nonrecurring award.
  - Managerial grade employees receive a nonrecurring award based on the ROE, paid subject to an annual return ratio of 10% in the year preceding the year of payment and at a total cost not exceeding NIS 8 million per year for all employees of this grade, in each of the years 2022-2024.

  Provision for the award in 2021 regarding changes in the Labor Charter amounted to approx. NIS 101 million.
- Award to branch employees – in the course of 2022, Bank branch employees received an additional nonrecurring award at a cost of NIS 10 million (pre-tax effect).

Signing of a collective labor agreement. A collective labor agreement was signed on November 12, 2023, between the Management of the Bank and the representative committee of employees, regarding changes to the collective agreement of December 23, 2023, in the matter of wages and awards, as well as additional agreements regarding the compensation of managers and the advancement of clerks to the managerial echelon at the Bank. In accordance with the agreement, the percentage wage increase by stages applicable to tenured employees of the managerial echelon, which were due to be paid in July 2023 and in July 2024, have been consolidated into one stage of a shekel wage increase payable with the salary for April 2024. It was further agreed on the consolidation of the two stages for the payment of the award in respect of changes in the Labor Charter, which were due to be paid to managers in July 2023 and in July 2024, so that a consolidated differential award, divided into four grades, would be paid to managers or a part of them in April 2024.

B. Details of benefits

	Consolidated		The Bank	
	December 31			
	2023	2022	2023	2022
	in NIS millions			
Severance pay, retirement and pension :				
The liability amount	2,690	2,644	1,897	1,920
Fair value of the plan's assets	1,303	1,219	993	936
Excess liabilities over the plan's assets included in the item "other liabilities"	**1,387**	**1,425**	**904**	**984**
Amounts included in the other liabilities item:				
Post retirement benefits to retirees	536	562	452	482
Vacation	152	142	90	84
Illness	7	7	-	-
Total Excess liabilities of the program included in the item "other liabilities" (Note 22)	**2,082**	**2,136**	**1,446**	**1,550**
Of which – for benefits to employees abroad	30	30	-	-

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated

1. Commitment and financing status

1.1 Change in commitment for anticipated benefits

	For the year ended December 31			
	2023	2022	2023	2022
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Commitment for anticipated benefits at the beginning of the year	2,644	3,180	562	677
Cost of service	98	117	6	8
Cost of interest	114	81	24	13
Actuarial profit	(25)	(542)	(24)	(106)
Changes in foreign currency exchange rates	–	–	1	3
Benefits paid	(141)	(172)	(33)	(33)
Other	–	(20)	–	–
Commitment at the end of the year for anticipated benefits	**2,690**	**2,644**	**536**	**562**
Commitment at the end of the year for accumulated benefits(1)	**2,338**	**2,272**	**536**	**562**

Footnote:

(1) The commitment for a cumulative benefit differs from the commitment for a contractual benefit in that it does not include any assumptions with regard to the future compensation levels.

1.2 Change in fair value of the plan's assets and financing status of the plan

	For the year ended December 31	
	2023	2022
	Severance pay, retirement and pension payments	
	in NIS millions	
Fair value of the plan's assets at the beginning of the year	1,219	1,384
Actual return on the plan's assets	84	(135)
Deposits to the plan	25	26
Benefits paid	(25)	(53)
An addition stemming from the merger of Municipal Bank	–	(3)
Fair value of the plan's assets at the end of the year	**1,303**	**1,219**
Financing status – net liability recognized at the end of the year	**(1,387)**	**(1,425)**

1.3 Amounts recognized in the consolidated balance sheet

	December 31			
	2023	2022	2023	2022
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Amounts recognized in the item "other liabilities"	(1,387)	(1,425)	(536)	(562)
Net liability at the end of the year	**(1,387)**	**(1,425)**	**(536)**	**(562)**

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

1. Commitment and financing status (continued)

1.4 Amounts recognized in accumulated other comprehensive income, before tax effect

	December 31			
	2023	2022	2023	2022
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Net actuarial loss	(566)	(665)	(2)	(22)
Net cost for prior service	-	-	(1)	(1)
Closing balances of accumulated other comprehensive loss	**(566)**	**(665)**	**(3)**	**(23)**

1.5 Plans in which the commitment for cumulative benefits exceeds the plan's assets

	December 31	
	2023	2022
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment for cumulative benefits	2,184	2,154
Fair value of the plan's assets	1,140	1,068

1.6 Plans in which the commitment for anticipated benefits exceeds the plan's assets

	December 31	
	2023	2022
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment for anticipated benefits	2,690	2,644
Fair value of the plan's assets	1,303	1,219

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

2. Expense for the year

2.1 Components of net benefit costs recognized in the statement of profit and loss for defined benefits pension plans and a defined deposit

	For the year ended December,		
	2023	2022	2021
	in NIS millions		
Severance pay, retirement and pension payments			
Cost of service	98	117	105
Cost of interest	114	81	54
Anticipated return on assets of the plan	(61)	(73)	(64)
Cost of prior service	–	(20)	–
Amortization of unrecognized amounts:			
Net actuarial loss	51	67	72
Total amortization of unrecognized amounts	**51**	**67**	**72**
Other, including loss from reduction or settlement	–	46	143
Total net cost of benefits	**202**	**218**	**310**
Total expense regarding defined deposits pension plans	**229**	**210**	**191**
Total expenses included for Severance pay, retirement and pension payments	**431**	**428**	**501**
Of which: expenses included in salaries and related expenses	327	327	296
Of which: expenses included in other expenses	104	101	205
Post retirement retiree benefits			
Cost of service	6	8	6
Cost of interest	24	13	15
Amortization of unrecognized amounts:			
Net actuarial income	(4)	(1)	–
Cost of prior service	–	(1)	(2)
Total amortization of unrecognized amounts	**(4)**	**(2)**	**(2)**
Total net cost of benefits	**26**	**19**	**19**
Of which: expenses included in salaries and related expenses	6	8	6
Of which: expenses included in other expenses	20	11	13

2.2 Changes in assets of the plan and in the commitment for benefits recognized in other comprehensive income (loss), before tax effect

	For the year ended December 31					
	2023	2022	2021	2023	2022	2021
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
	in NIS millions					
Net actuarial loss (income) for the year	(48)	(331)	172	(24)	(106)	74
Amortization of actuarial income (loss)	(51)	(67)	(72)	4	1	–
Amortization of credit for prior service	–	–	–	–	1	2
Other, including loss from reduction or settlement	–	(46)	(143)	–	–	–
Total recognized in other comprehensive income (loss)	**(99)**	**(444)**	**(43)**	**(20)**	**(104)**	**76**
Total net cost of benefits(1)	**202**	**218**	**310**	**26**	**19**	**19**
Total amount recognized in net cost of benefits and in other comprehensive income (loss)	**103**	**(226)**	**267**	**6**	**(85)**	**95**

Footnote:
(1) See item 2.1 above.

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

3. Assumptions

3.1 Assumptions on the basis of a weighted average used in determining the commitment for the benefit and in measuring the net cost of the benefit

3.1.1 Principal assumptions used in determining the commitment for the benefit

	December 31			
	2023	2022	2023	2022
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	1.92%-2.10%	1.83%-1.64%	1.98%-2.23%	2.00%-1.76%
Retirement rate	0.24%-22.96%	26.28%-0.42%		
Compensation growth rate	1.86%	1.80%		

3.1.2 Principal assumptions used in measuring the net cost of benefit for the period

	December 31			
	2023	2022	2023	2022
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	1.90%-1.74%	1.29%-0.46%	2.06%-1.85%	0.04%-1.49%
Anticipated long-term return on the plan's assets	5.07%	5.93%		
Compensation growth rate	2.38%	2.17%		

3.2 Effect of a one percentage point change on the commitment for anticipated benefits, before the tax effect

	Increase of one percentage point				Decrease of one percentage point			
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits	
	December 31							
	2023	2022	2023	2022	2023	2022	2023	2022
	in NIS millions							
Discount rate	(217)	(237)	(39)	(43)	232	228	45	43
Retirement rate	129	129	(2)	(1)	(134)	(136)	2	1
Compensation growth rate	230	237	-	-	(203)	(196)	-	-

4. The plan's assets

4.1 Composition of the fair value of the plan's assets

	December 31, 2023			December 31, 2022		
	level 1	level 2	Total	level 1	level 2	Total
	in NIS millions					
Type of asset						
Cash and deposits with banks	88	-	88	78	-	78
Shares	351	38	389	305	35	340
Bonds:						
Government	234	31	265	269	29	298
Corporate	348	44	392	294	56	350
Total bonds	582	75	657	563	85	648
Other	2	167	169	(2)	155	153
Total	**1,023**	**280**	**1,303**	**944**	**275**	**1,219**

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

4. The plan's assets (continued)

4.2 Fair value of the plan's assets by type of asset and Allocation target for the year 2023

	Allocation target	% of the plan's assets	
	Year 2024	December 31, 2023	December 31, 2022
	in percentage		
Type of asset			
Cash and deposits with banks	1.4 - 18.4	6.8	6.4
Shares	24.3 - 33.6	29.9	27.9
Bonds:			
Government	23.0 - 23.0	20.3	24.4
Corporate	27.1 - 36.3	30.1	28.7
Total bonds	50.1 - 59.3	50.4	53.1
Other	7.2 - 14.9	12.9	12.6
Total		**100.0**	**100.0**

5. Cash flow

5.1 Deposits

	Forecast[1]	Actual deposits	
		For the year ended December 31,	
	2024	2023	2022
	Severance pay, retirement and pension payments		
	in NIS millions		
Deposits	27	25	26

Footnote:

(1) Assessment of expected deposits with defined benefit pension plans during 2024.

5.2 Benefits expected to be paid by the Bank in the future

Year	Severance pay and pension payments In NIS millions
2024	223
2025	302
2026	138
2027	142
2028	138
2029-2033	662
2034 and thereafter	1,516
Total	**3,121**

23. Employee Benefits (continued)

D. **Compensation policy for officers of the Bank (2020-2022).** At a special General Meeting held on March 18, 2020, it was resolved to approve the compensation policy for the Bank's officers for the years 2020 through 2022, according to Section 267A of the Companies Law. The compensation policy was in force for a period of three years from the date of the general meeting's approval.

The Bank's compensation policy is subject, inter alia, to the provisions of the Companies Law, the Supervisor's directives and the Compensation Law.

The compensation policy includes, inter alia, the following components: the maximum monthly salary amount and the considerations in setting this; the scope of severance pay, which will usually be at a rate of 100% of the monthly salary, while prescribing provisions in connection with the inclusion of Section 14 of the Severance Pay Law; the prior notice period, which is not to exceed four months; the possibility of making a payment equal to up to six monthly salaries and related terms and conditions (excluding social benefit payments) for an officer's undertaking to adhere to a non-competition period of up to six months (when, in exceptional instances, the Bank will be entitled to decide to make the payment in the aforesaid scope without an undertaking for a non-competition period); a variable retirement terms payment, which will be subject to payment deferral arrangements; payment of a recruitment grant in special instances; payment of country-to-country relocation expenses incurred by an officer as a result of his appointment; related terms and conditions; a plan for the payment of annual awards to officers, subject to meeting the prescribed threshold goals. The scope of the annual award for officers is based on meeting Group indicators and individual indicators that reflect the officer's contribution to attaining the Bank's goals and on a discretionary award component. As part of the policy, special provisions have been prescribed regarding compensation of officers who deal with risk management, control and audit. The policy also includes a provision setting a ceiling for the amount of annual awards paid to any of the officers, as well as provisions allowing the distribution of a special contribution award and a discretionary award from a budget to be placed at the President & CEO's disposal. The policy prescribes arrangements for spreading the annual award, as well as provisions on the terms of service and employment of the Chairman of the Board of Directors and of the President & CEO.

The Compensation Committee and the Board of Directors have been authorized to approve an award to officers answerable to the President & CEO, other than on measurable indicators criteria basis, of up to a maximum amount of three monthly salaries to each such officer.

The President & CEO has been authorized to approve immaterial changes in the terms of service of the officers answerable to him, without needing the approval of the Compensation Committee, according to the Companies Regulations (Relaxations in Transactions with Interested Parties), 5760-2000, while, regarding the President & CEO, immaterial changes in his terms of service can be approved by the Compensation Committee.

Under the policy, provisions have been prescribed whereby variable compensation granted and paid will be repayable upon fulfillment of criteria prescribed in the compensation policy, according to that specified in Directive 301A.

The policy includes limits on the scope of the compensation to officers taking into consideration the rules and limits prescribed in the Compensation Law.

The policy also includes provisions on the possibility of granting equity compensation to officers, subject to limits on the scope of the compensation that are prescribed in the compensation policy.

E. **Compensation policy for officers of the Bank (2023-2025).** At a special General Meeting held on February 28, 2023, it was resolved to approve the compensation policy for the Bank's officers for the years 2023 through 2025, according to Section 267A of the Companies Law. The compensation policy will remain in force for a period of three years from the date of the general meeting's approval.

The Bank's compensation policy is subject, inter alia, to the provisions of the Companies Law, the Supervisor's directives and the Compensation Law.

The principal changes between the compensation policy for the Bank's officers (2023-2025) and the previous compensation policy for officers are as follows:

(1) Monthly salary – Adjusting the monthly salary ceiling for officers, except for the directors and the President & CEO, to an amount of NIS 140,000, linked to the increase in the index known on the date of the Compensation Policy's approval (instead of a ceiling of NIS 130,000, linked to the index), which reflects the increase in the index in relation to the previous ceiling.

(2) Annual award:

- Adding a clarification that the Bank may prescribe further threshold conditions in addition to those set forth in the Proposed Compensation Policy and deleting the threshold condition whereby the rate of return on equity in the award year is not to be less than 7%;
- Deleting the sections that relate to entitlement to an annual award upon termination of employment and upon commencement of employment during the year;

23. Employee Benefits (continued)

- Spreading the annual award – adding a condition whereby, if the Bank does not fulfill the condition for the payment of the portion of the annual award that is deferred (that the Bank has not recorded a loss in its consolidated financial statements for the award year that preceded the date for paying the deferred portion of the award), the payment of the aforesaid deferred portion of the award will be deferred to the following year, and if, as stated, the Bank does not fulfill said condition also at that time, the entitlement to that deferred portion of the award will be revoked.

(3) Award for special contribution – raising the ceiling for this award to an amount of NIS 5 million per annum for all the officers and subject to the limit in the Supervisor's Directive regarding the total of the variable component that can be granted discretionally to an officer (instead of a ceiling of NIS 1 million).

(4) Equity compensation – adding a clarification that the vesting period of the equity compensation (which, according to the existing Compensation Policy, will be spread over a period of not less than three years) will be at a vesting pace that is not to be faster than under a straight-line approach, and the expiry period in relation to the options will be up to six years from the date of their allotment.

(5) Repayment pursuant to the Supervisor's directives – amending the definition of "Exceptional Harm" so that it will include an actual monetary expense for the Bank that exceeds 2% of the Bank's shareholders' equity at the time of the expense materializing, according to its latest published consolidated financial statements (instead of 5%), and this is for the matter of repayment in the case where the officer was complicit in behavior that caused Exceptional Harm to the Bank, as described in the proposed compensation policy.

(6) Definition of an immaterial change – adding a clarification that the tested cost in relation to the last year or in relation to the annual cost in 2022, whichever is the higher, in connection with a change that is immaterial, is after excluding changes that stemmed from previous approvals of the President & CEO as an immaterial change, as well as adding a clarification that the limit on the annual cost to the Bank, as prescribed in section 13.2 of the Compensation Policy, does not include the cost in respect to updating existing provisions deriving from changes in employment terms (such as, the provision for severance pay or for an adaptation grant in the event of a change in the monthly salary).

F. Award plan for members of the Bank's Management and for the Internal Auditor (2020-2022)

1. General. On February 10, 2020, the Bank's Board of Directors accepted the recommendation of the Compensation Committee and approved an awards plan for members of the Bank's Management for the years 2020 through 2022 ("the Plan"), according to the compensation policy for the Bank's officers ("the Compensation Policy").

2. Annual award for Executive Vice Presidents

(a) **General.** The annual award for Executive Vice Presidents (including the Internal Auditor) is composed of an award based on meeting Group indicators ("a Group Award") and an award based on indicators deriving from meeting the goals of the division/activity over which the Executive Vice President is responsible ("an Individual Award").

(b) The total award for an Executive Vice President for the Group indicators and the individual indicators is not to exceed six (6) monthly salaries (or five and a half (5.5) monthly salaries for the Executive Vice President for Oversight and Control).

(c) The threshold terms for payment of the annual award will be meeting the following minimum cumulative indicators:

1. The rate of return on equity in the award year is not to be less than 7% (seven percent), excluding exceptional profits or losses (as these are defined in the Compensation Policy);
2. The total capital adequacy ratio and the Common Equity Tier 1 adequacy ratio, as per the Bank's annual consolidated financial statements for that award year, are not to be less than the minimum ratios prescribed in the Supervisor of Banks' directives;
3. Attainment of the minimum qualitative indicator score, which will include the Executive Vice President's contribution in implementing processes in the corporate governance fields, meeting the Bank's general goals in the fields of risk management, compliance with laws (including internal enforcement in the securities field and/or other fields), regulatory directives and the Bank's procedures;

If, for any of the Executive Vice Presidents, the threshold terms referred to in this subsection are not met in the award year, that Executive Vice President will not be entitled to an annual award for said year. This, however, should not be taken as prejudicing the entitlement of the other Executive Vice Presidents to an annual award.

(d) The Group Award – the Group Award for each Executive Vice President will be limited to an amount that shall not exceed three monthly salaries of the Executive Vice President, or two and a half monthly salaries for the Executive Vice President for Oversight and Control. A target goal will be set for each Group indicator, pursuant to which the minimum and maximum goals for that indicator will be set; meeting these respective goals will grant entitlement to the award at the rates prescribed in the Plan from the maximum amount of the award in relation to the indicator.

23. Employee Benefits (continued)

(e) The Individual Award – the Individual Award will be limited to an amount that shall not exceed three monthly salaries for each Executive Vice President and will be calculated on the basis of the indicators that focus on the goals set for the division for which the Executive Vice President is responsible in the aforesaid year, which will be recommended by the President & CEO and, proximate to the start of the award year, will be brought before the Compensation Committee and the Board of Directors for approval. A target goal will be set for each indicator, pursuant to which the minimum and maximum goals for that indicator will be set; meeting these respective goals will grant entitlement to the award at the rates prescribed in the Plan from the maximum amount of the award in relation to the indicator.

(f) **Compensation of officers engaged in risk management, control and audit**

In relation to the Bank's risk management, control and audit functions (the Internal Auditor, the Chief Accountant, the Chief Legal Counsel, and the Chief Risk Officer; collectively: "the Oversight and Control Functions"), special provisions have been prescribed as part of the Plan, taking into consideration the importance and sensitivity of the duties imposed on these functions.

According to the Supervisor's directives, the ratio between the fixed compensation and the variable compensation of the Oversight and Control Functions will be weighted more in favor of the fixed compensation, including in relation to officers that are not included as part of the Oversight and Control Functions.

Accordingly, the Bank has prescribed that part of the annual award that is attributable to the Group indicators will be lower for the Control and Oversight Functions than for the other officers.

The President & CEO's duties in relation to recommending the personal indicators that comprise the personal award and their weighting and the exercise of discretion for the annual award components will be done by the Audit Committee for the Bank's Internal Auditor, by the Bank's Risk Management Committee in consultation with the Bank's President & CEO, for the Bank's Chief Risk Officer and by the Audit Committee in consultation with the Bank's President & CEO for the Bank's Chief Accountant.

3. **Special contribution award and individual qualitative award (discretionary award)**

(a) Special contribution award – the Compensation Committee and the Board of Directors may grant a special award to all the Executive Vice Presidents or to any of them (both during the award year and also if the threshold terms in the award year have not been met), for exceptional performance or for a special contribution in attaining the Bank's goals, including for meeting the measurable criteria set in advance by the Board of Directors, provided that the amount of the special contribution awards does not exceed an amount of NIS 1 million per year and subject to the maximum awards amount as referred to in section 4 below.

(b) Discretionary award – The Bank's President & CEO has been given a budget for discretionary awards that is not to exceed two and a quarter times the monthly salaries of the Executive Vice Presidents entitled to such awards, which will be distributed at the discretion of the President & CEO, with this being the case even if the threshold terms in the award year have not been met, if, in the President & CEO's opinion, there are reasons that justify doing so, or if an annual award has been granted in the award year. The discretionary award amount is not to exceed three monthly salaries for a single Executive Vice President and is subject to the maximum awards amount as referred to in section 4 below. The distribution of the discretionary awards budget will be carried out subject to approval from the Compensation Committee and the Board of Directors.

4. **Maximum amount of all the awards**

The total awards amount for all the officers (including the President & CEO) for the award year is not to exceed 2.5% of the net profit attributable to the Bank's shareholders, as per the annual financial statements for the award year.

The total awards amount for an award year for a Business Executive Vice President (one who is defined as such by the Board of Directors) is not to exceed nine monthly salaries of that Executive Vice President.

The total awards amount for a head office Executive Vice President (one who is not a Business Executive Vice President or an Oversight and Control Executive Vice President) and for an Oversight and Control Executive Vice President is not to exceed eight monthly salaries of that Executive Vice President.

5. **Spreading the award**

(a) 50% of the awards amount for the award year will be paid immediately after publication of the Bank's financial statements for the award year.

(b) 50% of the awards amount will be linked to the rise in the CPI, will be deferred and will be spread in three equal portions over the three years following the eligibility date for the awards amount (hereinafter: "the Deferred Award" and "the Deferred Award Portion").

23. Employee Benefits (continued)

(c) Payment of a Deferred Award Portion will be contingent on the Bank not recording a loss in its consolidated financial statements for the award year preceding the payment date for the Deferred Award Portion.

(d) Notwithstanding the aforesaid, if, in any award year, the variable compensation to which an officer is entitled for that year does not exceed 40% of the officer's fixed compensation, 100% of the awards amount for the award year will be paid, without the spreading and deferral mechanism coming into play.

6. The Plan also adopts the provisions of the officers' Compensation Policy concerning the authority of the Board of Directors to reduce the total awards amount, to the maximum amounts of an Executive Vice President's annual compensation, to provisions on the repayment of award amounts paid to an Executive Vice President, and to circumstances for invalidating the awards amount.

7. **Awards for 2021.** In view of the Bank's compliance with the threshold terms for an annual award (see Section 2(c) above), the Compensation Committee and the Board of Directors approved the distribution of a collective award according to attaining of the collective indices determined according to the award plan (see Section 2(d) above), and distribution of a personal award computed on the basis of indices focused on goals set for the Division under the responsibility of the Vice President (see Section 2(e) above). Also, the distribution of the budget for the discretionary awards based on the recommendation of the President & CEO in a differential manner was approved (see Section 3(b) above). It should be noted that within the framework of the computation of the awards, the Compensation Committee and the Board of Directors, under their authority according to the definition of special profits or losses in the compensation policy applying to officers of the Bank, approved a special loss for an expense recognized in December 2021 for awards of a nonrecurring nature in connection with the consent for changes in the set of collective labor agreements at the Bank and in connection with the relocation to the Discount Campus in Rishon LeTzion (including an expense of a similar nature at MDB for the agreement for the relocation to the Campus), in a total amount of approx. NIS 232 million before tax (NIS 152 million net of tax effect). Approval of the special loss has increased the collective award by approx. 0.36 salaries on an average for the Vice President, and for reasons of caution has been classified as a discretionary award component, subject to the limit relating to the total amount of discretionary awards of up to three monthly salaries according to Directive 301A. For details on the nonrecurring awards, see Section A (12) above (in view of the classification as a discretionary award, as stated, the annual award has in fact increased by an amount equal to approx. 0.08 salaries on an average, for a Vice President). In addition, the Compensation Committee and the Board of Directors approved awards for special contribution for three Vice Presidents of the Bank, in a total amount of NIS 568 thousand, and subject to the discretionary limitation as discussed above (see Section 3(b) above). The total amount of awards for Vice Presidents for the year 2021, according to the award plan, amounted to NIS 9,978 thousand.

According to the compensation plan, the award distribution mechanism for the awards for 2021 applies to 7 Vice Presidents, which in their case, the total amount of awards to which a Vice President is entitled exceeds 40% of the regular compensation of that Vice President.

The Compensation Committee has confirmed that the terms for the payment of the second portion of the deferred award for 2021, in respect of seven Management members, according to the compensation policy for Officers, had been fulfilled, and it will be paid soon after the publication of the Annual Report for 2023.

8. **Awards for 2022.** In light of the Bank meeting the annual award threshold terms (see section 2(c) above), the Compensation Committee and the Board of Directors have approved the distribution of a group award in accordance with having met the group indicators set in the awards plan (see section 2(d) above; as of 2022, the group indicators include the return on equity (with a 50% weighting) and the efficiency ratio (with a 50% weighting)), and the distribution of a personal award that is calculated based on the indicators that focus on the goals set for the division for which the vice president is responsible (see section 2(e) above). In addition, a budget has been approved for discretionary awards, whose distribution will be according to the recommendation of the CEO, on a differential basis (see section 3 (b) above). In addition, the Compensation Committee and the Board of Directors approved awards for special contribution to two Executive Vice Presidents at the Bank, in a total amount of NIS 596 thousand, and subject to a judgment limitation, as stated (see section 3 (b) above). Within the framework of approval of awards to members of Management of the Bank and to the Internal Auditor in 2022, the Compensation Committee and the Board of Directors approved, in accordance with their authority, according to the definition of special profits or losses regarding the compensation policy applying to Officers of the Bank, to define capital profit on the sale of properties as a special profit to be eliminated in computing the awards. Such elimination has had no effect upon the scope of the awards granted to the Vice Presidents.

All the awards for the vice presidents for 2022, in accordance with the awards plan, amount to NIS 9,064 thousand.

23. Employee Benefits (continued)

In accordance with the compensation plan, the award spreading mechanism will apply to the 2022 awards for 6 vice presidents, where the amount of the awards to which the vice president is entitled exceeds 40% of the fixed compensation for that vice president.

The Compensation Committee has confirmed that the terms for the payment of the first portion of the deferred award for 2022, in respect of six Management members, according to the compensation policy for Officers, had been fulfilled, and it will be paid soon after the publication of the Annual Report for 2023.

G. Awards plan for members of the Bank's Management and for the internal auditor (2023-2025)

1. General. On January 23, 2023, the Bank's Board of Directors accepted the recommendation of the Compensation Committee and approved the awards plan for members of the Bank's Management for the years 2023-2025 according to the Bank's Compensation Policy for Officers ("the Compensation Policy").

The main changes between the awards plan for members of the Bank's management and for the internal auditor (2023-2025) and the awards plan that preceded it:

(1) Spreading the annual award – a condition has been added whereby, if the Bank does not meet the terms for paying the part of the annual award that is deferred (that the Bank has not recorded a loss in its consolidated financial statements for the award year preceding the date of paying the deferred award installment), the payment of said deferred award installment will be deferred to the following year, and, if the Bank does not meet the aforesaid terms at that time either, the entitlement to said deferred award installment will be canceled.

(2) Award for a special contribution – the maximum amount of this award has been increased to NIS 5 million per year for all officers, subject to the limit imposed in the Supervisor of Banks' directive with regard to the total of the variable component that can be discretionally granted to an officer (in place of the previous maximum amount of NIS 1 million).

2. Awards for 2023. In light of the Bank meeting the annual award threshold terms (see section 2(c) above), the Compensation Committee and the Board of Directors have approved the distribution of a group award in accordance with having met the group indicators set in the awards plan (see section 2(d) above; as of 2023, the group indicators include the return on equity (with a 50% weighting) and the efficiency ratio (with a 50% weighting)), and the distribution of a personal award that is calculated based on the indicators that focus on the goals set for the division for which the vice president is responsible (see section 2(e) above). Within the framework of approval of awards to members of Management of the Bank and to the Internal Auditor in 2022, the Compensation Committee and the Board of Directors approved, in accordance with their authority, according to the definition of special profits or losses regarding the compensation policy applying to Officers of the Bank, to define capital profit on the sale of properties as a special profit to be eliminated in computing the awards. Such elimination has had no effect upon the scope of the awards granted to the Vice Presidents.

All the awards for the vice presidents for 2023, in accordance with the awards plan, amount to NIS 8,985 thousand.

In accordance with the compensation plan, the award spreading mechanism will apply to the 2023 awards for 7 vice presidents, where the amount of the variable compensation to which the vice president is entitled exceeds 40% of the fixed compensation for that vice president.

H. The 2022 retirement plan. On August 29, 2022, the Bank's Board of Directors approved a retirement plan for permanent employees having the defined characteristics, would be entitled to early retirement under preferential terms. The liability which existed in the books of the Bank covered in full the cost of the plan, and accordingly, no increase in the liability was recorded in the books of the Bank, and there was no effect on the Bank's equity capital and on its capital adequacy. Some 65 permanent employees retired within the framework of the plan. The amount of the settlement charged to profit and loss in 2022, amounted to NIS 46 million (before tax effect). In 2023, no settlement was charged to profit and loss.

I. 2023 Retirement Plan – MDB. On December 27, 2023, the Board of Directors of MDB approved a voluntary early retirement plan, under favorable conditions for up to 50 employees of the bank who meet the defined criteria (seniority and age). On January 29, 2024, the Board of Directors of MDB approved the expansion of the retirement plan to a further ten employees. During February 2024, the implementation of the retirement plan was completed, in which 60 employees would retire, most of them by March 31, 2024, and the rest by June 30, 2024. Implementation of the plan led to an increase in MDB's actuarial liabilities in a total amount of approx. NIS 50 million.

24. Shareholders' Equity, Preferred Shares, Share based payment transactions and Dividends

A. The authorized, issued and paid-up nominal capital (In new Israeli Shekels)

	December 31,2023 and 2022	
	Authorized	Issued and Fully Paid-Up
Ordinary “A” Shares of NIS 0.1 par value each	260,515,000	123,701,129
6% Cumulative Preferred Shares, of NIS 0.00504 each (equivalent to £10 each)	202	202
Total shareholders equity	**260,515,202**	**123,701,331**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

On March 30, 2022, the Bank completed a process of issuing shares to the public, comprising 72,994,300 shares of a par value of NIS 0.1 each, in total consideration for approx. NIS 1,428 million.

B. 6% cumulative preferred authorized share capital

The dividend and the rights of these shareholders are linked to the representative rate of exchange of the New Israel shekel to the pound sterling at the date of each payment. At the balance sheet date, every holder of a preference share, the par value of which is equivalent to £10, is entitled to an annual dividend in an amount of NIS 2.77, and at the time of liquidation to a distribution in an amount of NIS 46.21. According to Israeli accounting principles, non-participating preference shares are not to be included as part of shareholders' equity, and accordingly they are presented under the section "other liabilities".

C. Dividend

(1) **General.** The distribution of dividends by the Bank is subject to the provisions of the law, including limitation deriving from Directives of the Supervisor of Banks.

(2) **Restrictions established in instructions of the Supervisor of Banks.** Proper Conduct of Banking Business Directive No. 331 determines restrictions on the distribution of dividends. Letters of the Supervisor of Banks in the matters of "Capital policy for interim periods" and "Basel III framework – Minimum core capital ratios" required banking corporations, among other things, to avoid a distribution of dividend, if as a result thereof, the banks might not attain the capital targets determined in the said letters.

(3) **Dividend payment for preferred shares.** On December 27, 2023, a dividend for the year 2023 at the rate of 6% was paid to the holders of 40,000 6% cumulative preferred shares of NIS 0.00504 par value each, in a total amount of £24,000.

(4) **Dividend policy.** On August 13, 2023, the Bank's Board of Directors approved an update to the Bank's dividend policy, according to which, the Bank may distribute in each quarter, a dividend of up to 40% of the distributable net earnings according to the consolidated financial statements for the previous quarter, instead of a distribution rate of up to 30%. The updating of the dividend policy was approved following attainment of the capital outline of the Bank and the consistent improvement in the business results of the Group.

It is clarified that this policy should not be deemed a commitment by the Bank for a dividend distribution, and that each dividend distribution in practice shall be subject to approvals required by the law, including a specific approval by the Board of Directors for a dividend distribution based on its judgment and subject to compliance with the provisions of the law applying to dividend distribution, inter alia, according to the Companies Law and directives of the Supervisor of Banks. It is further noted that the actual distribution of a dividend is subject to compliance with the capital adequacy goals prescribed by the Bank of Israel and the internal capital goals, as determined or would be determined by the Bank's Board of Directors. The Board of Directors may examine from time to time the dividend distribution policy and decide at any time, taking into account business considerations and the provisions of the law and regulation applying to the Bank, on changes in the dividend policy, including in the rate of dividend to be distributed. The Board may also decide that no dividend should be distributed at all.

In a letter dated November 12, 2023, the Supervisor of Banks asked the banking corporations to reexamine their policy of dividend distribution and the execution of share buybacks for the near future, against the background of the increase in uncertainty regarding the duration of the war and the extent of its impact on the economy.

In light of the aforesaid, and in light of the Bank’s commitment to continue supporting customers and their credit needs, both during the war and on the “day after”, the Bank’s Board of Directors, at its meeting of November 26, 2023, decided to distribute a dividend of 15% of the third quarter of 2023 profits, totaling approx. NIS 122.6 million, which constitutes approx. NIS 9.91 Agorot per ordinary “A” share of NIS 0.1 par value (this, compared to a dividend at the rate of 30% of the profits for the second quarter of 2023).

In a letter dated March 5, 2024, the Supervisor of Banks asked the banking corporations to again review their dividend distribution policy for the near future, in light of the continuation of the war and the extent of its impact on the economy.

24. Shareholders' Equity, Preferred Shares, Share based payment transactions and Dividends (continued)

In light of all the aforesaid, the Bank's Board of Directors decided, in its meeting on March 10, 2024, to make a dividend distribution at the rate of 20% of the profits of the fourth quarter of 2023, in an amount of approx. NIS 183.8 million, representing approx. 14.86 Agorot per ordinary A' share of NIS 0.1 par value.

(5) Details on the dividend paid

Declaration date	Payment date	Total dividend paid	Rate from the profit	Dividend per share
		In NIS million	In percentage	In agorot (100 agorot = NIS 1)
November 22, 2021	December 9, 2021	144.4	20	12.41
March 8, 2022	March 30, 2022	105.8	20	9.09
May 22, 2022	June 9, 2022	196.6	20	15.89
August 11, 2022	August 30, 2022	135.9	20	10.99
November 23, 2022	December 13, 2022	178.6	20	14.44
March 13, 2023	March 30, 2023	187.8	20	15.18
May 16, 2023	June 6, 2023	380.7	30	30.78
August 13, 2023	September 3, 2023	356.1	30	28.79
November 26, 2023	December 17, 2023	122.6	15	9.91

D. Share based payment transactions - Equity compensation for officers and senior employees

(1) **Outline for the allocation of share options - the Original Outline.** On May 30, 2022, the Bank's Board of Directors approved an outline for the granting of up to 10,000,000 nonmarketable share options to offerees, at no cost, each of which would be exercisable, upon fulfillment of certain terms, into one registered Ordinary A share of the Bank of a par value of NIS 0.1, subject to adjustments (hereinafter: "the outline" and "the pool", respectively). The options that would be allotted in the future, if at all, under the outline, are allotted according to the capital compensation plan 2022, approved by the Board of Directors and submitted to the Tax Authority on May 31, 2022 (hereinafter: "the plan") and according to the provisions of Sections 102(b)(2) and 102(b)(3) of the Income Tax Ordinance (New Version), 1961, under the capital profit tax option, by means of a Trustee.

In the event that entitlement of the offeree to the option that had been granted to him expires and/or is cancelled prior to being exercised by him, the option returns to the pool being used by the Bank, and out of which, the Bank would be entitled to grant options according to the provisions of the plan and the outline, at its exclusive discretion.

Vesting period. The options granted to each offeree are divided into two tranches. The first tranche (one half of the options) vests at the end of two years since date of allotment, and the second tranche (one half of the options) vests at the end of three years from date of allotment (hereinafter: "the original vesting date").

Vesting performance goals. Each option tranche allotted to an offeree vests on the determined date for vesting, subject to the Bank fulfilling the cumulative conditions detailed below (hereinafter: "vesting performance goals"):

- The comprehensive capital adequacy ratio and the Common Equity Tier 1 ratio, according to the annual consolidated financial statements of the Bank for the two calendar years ended prior to the vesting date of the first trance and for the calendar year ended prior to the vesting date of the second tranche, shall not be lower that the minimal ratios determined in Directives of the Supervisor of Banks;
- The Bank's rate of return on equity according to the Bank's annual consolidated financial statements of the Bank for the two full calendar years ended prior to the vesting date of the first tranche, shall not be lower than 7% on an average, and the rate of return on equity in the calendar year ended prior to the vesting date of the second tranche shall not be lower than 7%. In the event that the Bank does not attain the performance goal of return on equity on the original vesting date of a particular tranche, the compliance test regarding this performance goal regarding that tranche would be deferred to the next year, so long as the option has not expired, with the rate of return on equity with respect to the first tranche shall be tested in relation to the three calendar years prior to the deferred vesting date, and with respect to the second tranche, shall be tested in relation to the calendar year prior to the deferred vesting date.

Exercise price. The exercise price of the options that would be allotted according to the outline, shall at least equal the average of the closing quotations of the shares of the Bank on the Stock Exchange on the thirty trading days prior to the date of approval of granting by the Board of Directors (or by the manager of the plan) with the addition of a premium to be determined, if at all.

24. Shareholders' Equity, Preferred Shares, Share based payment transactions and Dividends (continued)

Exercise period. Each tranche may be exercised as from the original date of vesting and until the end of two years from the said date, subject to adjustments in certain cases.

Manner of exercising the options. The exercise shall be made by an exercise mechanism of options into shares based on the benefit component (Net exercise).

Automatic compulsory exercise. In the event that following the vesting of any option tranche and prior to its expiry, the closing quotation for the Bank's shares on the Stock Exchange at the close of whatever trading date, would be equal to or exceed a price which is 70% higher than the closing quotation for the shares of the Bank on the trading day immediately prior to the date on which the Board of Directors approved the granting of options (hereinafter: "the maximum quotation"), then all options of that tranche would be automatically exercised.

Miscellaneous instructions. The outline contains different instructions, including instructions regarding cases of termination of employment; instructions regarding adjustment of the right of the offeree to exercise the options in case of different events happening; instructions regarding the management of the plan and the authority of the manager of the plan, and more.

The economic value of the options. The fair value of the options is based upon a binomial model for the pricing of options, consistent with the Black & Scholes formula, all according to the assumptions as contained in the outline.

The number of options allotted for each offeree being an Officer, reflects the fair value as of date of approval of the allotment by the Board of Directors, which equals the amount of three monthly salaries for each vesting year, and for an offeree being another senior employee, equals two monthly salaries for each vesting year.

(2) Outline for the allocation of share options – the Revised Outline. On September 11, 2023, the Bank’s Board of Directors decided to update the Original Outline and increase the number of options that can be granted pursuant thereto, so that the total quantity will amount to 13,000,000 nonmarketable share options, at no consideration, each of the options is exercisable into one ordinary share of the Bank, including the total number of options allotted according to the Original Outline, as well as to allow the allocation of options according to the Revised Outline also to officers and employees of the Bank’s related companies.

(3) Allotments in 2022-2024

(a) Allotment in July 2022. On June 27, 2022, following approval of the Bank's Compensation Committee with respect to the Bank's Officers, the Bank's Board of Directors approved an actual allotment of 3,939,972 share options out of the reserve, to thirty-three employees of the Bank, of which nine Executive Vice Presidents and twenty-four senior managers, reporting to VP's, engaged by the Bank on personal employment agreements. On July 17, 2022, the Bank allotted the share options to the Offerees. The exercise price for each share option allotted to the Offerees in this allotment amounts to NIS 19.66 (subject to adjustments according to the outline). The fair value of the options that had been allotted within the framework of the first allotment, as of date of approval of the allotment by the Board of Directors, is approx. NIS 15,701 thousand.

(b) Allotment in August 2022. On August 11, 2022, the Board of Directors approved an additional actual allotment of 638,341 options according to the outline, to five employees of the Bank, of which, two are Executive Vice Presidents, and three are senior managers reporting to VP's, who are employed by the Bank under a personal employment agreement. The exercise price of each option allotted to the offerees in the additional allotment amounts to NIS 19.81 (subject to adjustments according to the outline). The stated fair value of the options granted under the additional allotment, as of date of approval of the additional allotment by the Board of Directors, amounts to approx. NIS 3,077 thousand.

(c) Allotment in January 2023. On January 23, 2023, the Board of Directors approved the actual grant of an additional 966,840 options, pursuant to the outline, to 11 employees of the Bank, who are senior managers reporting to a vice president and who are employed at the Bank under a personal contract. The exercise price for each option granted to the allottees in this grant is NIS 19.34 (subject to adjustments in accordance with the outline). The fair value of the options granted within the framework of this allotment, as of the date of approval of the allotment by the Board of Directors, is approx. NIS 3,814 thousand.

(d) Allotment in June 2023. On June 12, 2023, the Board of Directors approved the actual grant of an additional 298,895 options, pursuant to the outline, to 5 employees of the Bank, who are senior managers reporting to a vice president and who are employed at the Bank under a personal contract. The exercise price for each option granted to the allottees in this grant is NIS 19.58 (subject to adjustments in accordance with the outline). The fair value of the options granted within the framework of this allotment, as of the date of approval of the allotment by the Board of Directors, is approx. NIS 1.5 million.

(e) Allotment in September 2023. On September 11, 2023, the Board of Directors approved the actual grant of an additional 128,715 options, pursuant to the outline, to an executive vice president, Member of Management employed at the Bank under a personal contract. The exercise price for each option granted to the allottee in this grant is NIS 19.97 (subject to adjustments in accordance with the outline). The fair value of the options granted within the framework of this allotment, as of the date of approval of the allotment by the Board of Directors, is approx. NIS 576 thousand.

24. Shareholders' Equity, Preferred Shares, Share based payment transactions and Dividends (continued)

(f) **Allotment in October 2023.** On October 16, 2023, the Board of Directors approved the actual grant of an additional 171,514 options, pursuant to the outline, to an executive vice president, Member of Management employed at the Bank under a personal contract. The exercise price for each option granted to the allottee in this grant is NIS 20.5 (subject to adjustments in accordance with the outline). The fair value of the options granted within the framework of this allotment, as of the date of approval of the allotment by the Board of Directors, is approx. NIS 577 thousand.

(g) **Allotment in January 2024.** On January 29, 2024, the Board of Directors approved the actual grant of an additional 162,659 options, pursuant to the outline, to 3 employees of the Bank, who are senior managers reporting to a vice president and who are employed at the Bank under a personal contract. The exercise price for each option granted to the allottees in this grant is NIS 18.92 (subject to adjustments in accordance with the outline). The fair value of the options granted within the framework of this allotment, as of the date of approval of the allotment by the Board of Directors, is approx. NIS 704 thousand.

(4) **Details regarding the total cost of compensation.** The cost of compensation recognized in profit and loss in 2023 totaled approx. NIS 10 million (2022 – NIS 3 million).

As of December 31, 2023, the total cost of the inclusive compensation relating to awards not yet matured, which, as yet, has not been recognized in the statement of profit and loss is approx. NIS 12 million (December 31, 2022 – NIS 15 million), and the weighted average period over which it is expected to be recognized is approx. 1.3 years (December 31, 2022 – approx. 1.6 years).

(5) Assessment of fair value

	For the year ended December 31,	
	2023	2022
Risk-Free rate (%)	3.48%-4.18%	2.31%-2.62%
Volatility of the share price (weighted average) (%)	27.50%-31.10%	26.49%-28.61%
Period to expiry of the option	4-5 years	4-5 years

(6) Movement in share options

	For the year ended December 31, 2023		For the year ended December 31, 2022	
	Number of options	Weighted average of exercising price[3]	Number of options	Weighted average of exercising price[3]
Existing in circulation at the beginning of the year	4,578,313	19.43	-	-
Granted during the year[1]	1,565,964	19.55	4,578,313	19.68
Forfeited during the year	(124,187)	19.30	-	-
Existing in circulation at the end of the year [2]	6,020,090	18.67	4,578,313	19.43

Footnotes:

(1) The weighted average of the fair value of share options granted in the course of the year is NIS 4.10 (2022 – same).

(2) Existing in circulation share options at the end of the year classified according to range of exercise price (in NIS):

	For the year ended December 31,	
	2023	2022
Range of exercise price (in NIS)	19-20	19-20
Number of options	6,020,090	4,578,313
Weighted average of exercising price (in NIS)	18.67	19.43
Weighted average of the balance of the contractual period to maturity (in years)	3.23	4.06

(3) The exercise price of the options is subject to adjustments due to the distribution of dividends.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks

1. Capital adequacy according to Directives of the Supervisor of Banks

A. **Minimum capital ratio.** According to the Proper Conduct of Banking Business Directives, starting with January 1, 2015, the minimum total capital ratio, which the Bank is required to attain is 12.5%.

B. **Additional capital requirements for housing loans.** According to the amendment to Proper Conduct of Banking Business Directive No. 329, a banking corporation is required to increase their Common equity tier 1 target by a rate which expresses 1% of the outstanding housing loans. The said requirement increased the minimum equity capital requirement by approx. 0.20%. It is noted that according to the Provisional Instruction from April 27, 2020, the said requirement shall not apply to housing loans approved as from March 19, 2020 and until date of expiry of the Provisional Instruction (December 31, 2021). Housing loans approved as from the effective date of the provisional instruction, and for which, the additional capital requirement does not apply, as stated, amounted at December 31, 2023 to NIS 16,971 million.

On December 27, 2021, within the framework of updating Proper Conduct of Banking Business Directive No. 329, "Limitations on granting Housing Loans", it was prescribed that the aforesaid additional capital requirement would apply solely to loans for the purpose of housing and would not apply to a housing loan not for the purpose of acquiring a land right and a housing pledge ("an 'any purpose' loan").

C. **Relief on the retirement plans**

(1) **Relief on the retirement plan 2020.** The Supervisor of Banks granted the Bank relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 257 million (before taxes; an amount of NIS 169 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2020, and are gradually amortized, as from the third quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 118 million have been amortized to December 31, 2023.

(2) **Relief on the expanding of the retirement plan 2020.** The Supervisor of Banks granted the Bank relief on the expanding of its 2020 retirement plan. Costs in a total amount of approx. NIS 238 million (before taxes; an amount of NIS 157 million net of tax) have been eliminated in computing capital adequacy in the report for the third quarter of 2020, and are gradually amortized, as from the fourth quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 102 million have been amortized to December 31, 2023.

(3) **Relief on the retirement plan 2020 - MDB.** The Supervisor of Banks granted MDB a relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 60 million (before taxes; an amount of NIS 40 million net of tax) have been eliminated in computing capital adequacy in the 2020 annual report, and are gradually amortized, as from the fourth quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 26 million have been amortized to December 31, 2023.

D. **Capital components subject to fluctuations.** The Bank manages its capital adequacy with the intent of complying with the requirements of the Supervisor of Banks and with the targets set by the Board of Directors. The capital adequacy of the Bank is subject to changes, inter alia, for a change in the volume of risk assets and deductions from capital, for changes in market return, which affect the profits of the available-for-sale portfolio and are recognized in the capital reserve, and for actuarial changes recognized in capital, as a result of changes in the interest rate used for the computation of the Bank's liabilities or other actuarial assumptions, such as mortality rates, retirement, etc.

E. Capital for calculating ratio of capital

Calculated according to Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "measurement and capital adequacy".

	December 31,	
	2023	2022
	in NIS millions	
Common equity tier 1 after regulatory adjustments and deductions	(1)28,890	(1)25,353
Additional tier 1 capital after deductions	-	-
Tier 1 capital	28,890	25,353
Tier 2 capital after deductions	7,469	6,878
Total capital	**36,359**	**32,231**

Footnote:

(1) See item "(c)" above and "I" below.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

F. Weighted risk assets balance

	December 31,	
	2023	2022
	in NIS millions	
Credit risk[1]	242,816	[2]225,052
Market Risk	4,209	3,633
CVA risk	2,338	2,077
Operational risk	20,406	16,685
Total weighted risk assets balance	**269,769**	**247,447**

Footnotes:

(1) The total weighted balances of the risk assets have been reduced by NIS 155 million (December 31,2022: NIS 252 million) due to adjustments in respect to the efficiency plan.

(2) The total weighted balances of the risk assets have been reduced by NIS 555 million on December 31,2022 due to adjustments in respect to the efficiency plan.

G. Ratio of capital to risk assets

	December 31,	
	2023	2022
	In %	
A. Consolidated		
Ratio of common equity tier 1 to risk assets	10.71	10.25
Ratio of total capital to risk assets	13.48	13.03
Ratio of minimum common equity tier 1 required by the Supervisor of Banks[3]	9.20	9.19
Minimum total capital adequacy ratio required by the Supervisor of Banks	12.50	12.50
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Ratio of common equity tier 1 to risk assets	12.58	11.07
Ratio of total capital to risk assets	14.98	13.66
Ratio of minimum common equity tier 1 required by the Supervisor of Banks[4]	9.23	9.22
Minimum total capital adequacy ratio required by the Supervisor of Banks	12.50	12.50
2. Discount Bancorp Inc. [1]		
Ratio of common equity tier 1 to risk assets	14.67	14.12
Ratio of total capital to risk assets	15.65	15.05
Ratio of minimum common equity tier 1 required according to local regulation[2]	4.50	4.50
Minimum total capital adequacy ratio required according to local regulation[2]	8.00	8.00
3. Israel Credit Cards LTD.		
Ratio of common equity tier 1 to risk assets	13.30	12.40
Ratio of total capital to risk assets	14.30	13.50
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.00	8.00
Minimum total capital adequacy ratio required by the Supervisor of Banks	11.5	11.5

Footnotes:

(1) The data in this item was computed according to the rules mandatory in the U.S.A.

(2) IDB Bank is subject to the new Basel III capital rules based on the final rules published by the FRB. Capital ratios are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.

(3) With an addition of 0.20% (December 31, 2022: 0.19%), according to the additional capital requirements with respect to housing loans - see item 1 (b) above.

(4) With an addition of 0.23% (December 31, 2022: 0.22%), according to the additional capital requirements with respect to housing loans - see item 1 (b) above.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

H. Capital components for calculating ratio of capital

	December 31,	
	2023	2022
	in NIS millions	
A. Common Equity Tier 1		
Common equity	29,238	25,478
Difference between common equity and common equity tier 1	(399)	(262)
Total common equity tier 1 before supervisory adjustments and deductions	**28,839**	**25,216**
Supervisory adjustments and deductions		
Goodwill and other intangible assets	161	175
Supervisory adjustments and other deductions	24	25
Total supervisory adjustments and deductions before effect of adjustments for the efficiency plan and before effect of adjustment for expected credit losses	**185**	**200**
Total adjustments in respect to the efficiency plan	119	202
Total adjustments for expected credit losses	117	135
Total common equity tier 1 after supervisory adjustments and deductions	**28,890**	**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	4,296	3,942
Allowance for credit losses before deductions	3,064	2,839
Minority interests in a subsidiary	109	97
Total tier 2 capital before deductions	7,469	6,878
Deductions	-	-
Total tier 2 capital	**7,469**	**6,878**

I. The effect of the adjustments for the efficiency plan, expected credit losses and increased risk loans for the purchase of land

	December 31,	
	2023	2022
	In %	
Ratio of Common Equity Tier 1 to risk items before effect of adjustments	10.62	10.07
Effect of the adjustments in respect to the efficiency plan(1)	0.05	0.11
Effect of adjustments for expected credit losses(2)	0.04	0.05
Effect of adjustments for increased risk loans for the purchase of land(3)	-	0.02
Ratio of common equity tier 1 to risk assets after the effect of the adjustments	10.71	10.25

Footnote:

(1) See item "C" and "I" above.

(2) Adjustments in respect of the effect of initial application of accounting principles regarding expected credit losses, which are gradually being decreased until December 31, 2025. See also item "I" above.

(3) Adjustments in respect of the effect of initial application of the directives of the Supervisor of Banks regarding higher capital requirements for increased risk loans intended to finance the purchase of land, which are gradually being decreased until June 30, 2023.

J. Issuance of subordinate debt notes which include a loss absorption mechanism

Series "F". On October 29, 2019, the Bank issued (through Manpikim Company) an amount of approx. NIS 1,232 million par value of subordinate debt notes (series "F"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "F") include a loss absorption mechanism through the elimination of the principal sum of the subordinate debt notes (Series "F") either in full or in part, in the case of certain circumstances occurring, as detailed below. The subordinate debt notes (Series "F") comprise capital instruments, classified as Tier 2 capital for inclusion in the Bank's regulatory capital and comply with the qualifying terms contained in the Basel III rules. On January 7, 2020, the Bank (through Manpikim Company) issued by way of extending a listed series to a classified investor in a private placement, subordinate debt notes (Series "F") in the nominal value of NIS 100 million.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

The principal sum of the subordinate debt notes (Series "F") will be repaid in one amount on October 29, 2030, unless Discount Manpikim has previously used its right for the early redemption of the subordinate debt notes not before October 29, 2025 and no later than November 29, 2025, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "F"), carries a fixed annual interest of 1.46% payable once a year.

Series "G". On June 2, 2020, the Bank (through Manpikim company) issued subordinate debt notes (Series "G") in the nominal value of approx. NIS 440.4 million par value, which were listed for trading on the Stock Exchange. The said subordinate debt notes (Series "G") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "G"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "G") comprise a capital instrument classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III. On April 22, 2021, the Bank issued (through Manpikim) approx. NIS 845.6 million par value subordinated debt notes (Series G) in a public offering by way of extending a listed series. On June 28, 2021, the Bank issued (through Manpikim) approx. NIS 228.1 par value million subordinated debt notes (Series G) in a public offering by way of extending a listed series to a classified investor in a private placement. The principal sum on the subordinate debt notes (Series "G") shall be redeemed in one payment, on July 1, 2031, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes not before July 1, 2026 and no later than August 1, 2026, subject to approval of the Supervisor of Banks. The outstanding balance of the subordinate debt notes (Series "G") carries a fixed annual interest rate of 2.42%, payable once in each year.

Series "H". On November 29, 2021, the Bank (through Manpikim company) issued NIS 573.1 million par value of subordinate debt notes (Series "H"), which were listed for trading on the Stock Exchange. The said subordinate debt notes (Series "H") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "H"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "H") comprise a capital instrument classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III. The principal sum on the subordinate debt notes (Series "H") shall be redeemed in one payment, on November 1, 2032, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes, no earlier than November 1, 2027, and no later than December 1, 2027, subject to approval of the Supervisor of Banks. The outstanding balance of the subordinate debt notes (Series "H") carries a fixed annual interest rate of 0.2%, payable once in each year.

Series "I". On November 28, 2022, the Bank (through Manpikim company) issued approx. NIS 463.3 million par value of subordinate debt notes (Series "I"), which were listed for trading on the Stock Exchange. On June 15, 2023, the Bank issued (through Manpikim) approx. NIS 381.2 million subordinated debt notes (Series "I") by way of extending a listed series, which were listed for trading on the Stock Exchange. The said subordinate debt notes (Series "I") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "I"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "I") comprise a capital instrument classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III. The principal sum on the subordinate debt notes (Series "I") shall be redeemed in one payment, on November 30, 2033, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes, no earlier than November 30, 2028, and no later than December 30, 2028, subject to approval of the Supervisor of Banks. The outstanding balance of the subordinate debt notes (Series "I") carries a fixed annual interest rate of 3.17%, payable once in each year.

Constitutive event for non-viability. Upon occurrence of circumstances comprising a constitutive event for non-viability, as described below, Discount Manpikim shall write-off (fully or partly) the subordinate debt notes of the said series. A constitutive event for non-viability of a banking corporation is the earlier of the two following events:

- Announcement of the Supervisor to the Banks that the conversion of the capital instrument or its write-off is imperative, and that, in the opinion of the Supervisor, without it the bank would reach the point of non-viability;
- Notice to the Bank by the Supervisor of Banks on the decision to carry out the raising of capital from the public sector, or other support of equal value, without it the bank would reach the non-viability point, as stated by the Supervisor of Banks.

In the event that following the write-off of the principal sum and up to a period of 7 years from the date of the write-off, the Bank's Common Equity Tier 1 ratio would rise above the minimum capital ratio determined for the Bank by the Supervisor of Banks, then the Bank, at its discretion, would be entitled to announce the reversal, in part or in full, of the principal's write-off.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

2. Leverage ratio according to Directives of the Supervisor of Banks

Calculated according to Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio.

Temporary directive for a relaxation in relation to leverage in light of the Corona crisis. On November 15, 2020, the Banking Supervision Department issued an update to Proper Conduct of Banking Business Directives, which deals with the relief in the leverage ratio for a banking corporation, so that it will amount to 4.5% for a banking corporation whose market share is smaller than 24%. This was done to prevent a situation where the leverage ratio would constitute an obstacle to extending bank credit. The temporary directive has been extended from time to time. In a circular dated December 20, 2023, the relief stipulated in this matter was extended so that it will be valid until June 30, 2026, provided that the leverage ratio is not less than the rate on December 31, 2025 or from the minimum leverage ratio required from a banking corporation prior to the temporary directive, the lower of the two.

	December 31,	
	2023	2022
	in NIS millions	
A. Consolidated		
Tier 1 capital[1]	28,890	25,353
Total exposures	434,193	412,180
	In %	
Leverage ratio	6.7	6.2
Minimal Leverage ratio required by the Supervisor of Banks	4.5	4.5
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Leverage ratio	7.4	5.9
Minimal Leverage ratio required by the Supervisor of Banks	4.5	4.5
2. Discount Bakcorp Inc.		
Leverage ratio	10.7	10.3
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0
3. Israel Credit Cards LTD.		
Leverage ratio	9.8	9.2
Minimal Leverage ratio required by the Supervisor of Banks	4.5	4.5

Footnote:

(1) For the effect of the adjustments for the efficiency plans, see items 1 I, J.

Factors which may materially affect the leverage ratio. The changes in the scope of exposure and the Tier 1 capital of the Bank may lead to changes in the Bank's leverage ratio. For possible changes in the regulatory capital, see section 1 D above.

3. Liquidity coverage ratio according to Directives of the Supervisor of Banks

Calculated according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio.

General. The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio, which adopts the recommendations of the Basel Committee on the liquidity coverage ratio in the banking industry in Israel. The liquidity coverage ratio tests a 30-day horizon in the stress test and is intended to ensure that a banking corporation maintains an inventory of high quality liquid assets covering the liquidity requirements of the banking corporation within that time horizon. The Directive determines the manner of calculation of the liquidity coverage ratio, including the definition of characteristics and operating requirements as to the "inventory of high quality liquid assets" (the numerator) and the safety factors for such as well as the net cash outflow expected in the stress test as defined in the Directive for the 30 calendar days (the denominator).

The stress test determined in the Directive includes a shock combining a shock specific to the corporation as well as a market-wide shock, under which standard withdrawal rates have been determined for the cash outflows and rates of deposits of cash inflows according to the categories of the different balances.

The computation is based on the average of daily observations in the period of ninety days prior to the date of the report (with the exception of ICC, where the computation was based on the average of monthly observations).

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

3. Liquidity coverage ratio according to Directives of the Supervisor of Banks (continued)

Factors which may materially affect the liquidity coverage ratio. The Bank manages the liquidity risk with the aim of ensuring the ability to honor its liabilities in different variable situations. This, according to requirements and restrictions determined by the Board of Directors in the matter of liquidity risk management and according to guidelines of the Supervisor of Banks.

Factors that may materially impact the liquidity situation and for which the Bank has made preparations, include different situations, local and international, which may affect the cost of raising resources and their availability, the value of liquid assets and the repayment ability of the Bank's customers.

	For the three months ended December 31,	
	2023	2022
	In %	
A. Consolidated		
Liquidity coverage ratio	130.7	130.5
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
B. The Bank		
Liquidity coverage ratio	146.2	145.4
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
C. Significant subsidiaries[1]		
Mercantile Discount Bank LTD. and its consolidated companies		
Liquidity coverage ratio	132.5	134.2
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0

Footnotes:

(1) The new directive does not apply to credit card companies and thus data relating to ICC are not presented. Likewise, the directive does not apply to IDB New York.

4. Net Stable Funding Ratio according to the Supervisor of Banks's directive

General. With effect from December 31, 2021, the Bank applies Proper Conduct of Banking Business Directive No. 222, "Net Stable Funding Ratio – NSFR", which adopts the recommendations of the Basel Committee regarding a Net Stable Funding Ratio in the Israeli banking system. According to the directive, the objective of a Net Stable Funding Ratio is to improve the resilience of the liquidity risk profile of banking corporations in the long term by means of requiring from the banking corporations to maintain a stable funding profile according to the composition of their balance sheet assets and their off-balance sheet activities. The Net Stable Funding Ratio consists of two components: available stable funding items (the numerator) and required stable funding items (the denominator). "Available stable funding" is defined as that part of the capital and liabilities that can be relied upon over the time horizon taken into account in the Net Stable Funding Ratio, which lasts for one year. The Required amount of stable funding of a particular corporation is a function of the liquidity characteristics and the residual maturities of the various assets held by that corporation, as well as of its off-balance sheet exposures.

According to the directive, the required minimum Net Stable Funding Ratio stands at 100%.

	December 31,	
	2023	2022
	In %	
A. Consolidated		
Net stable funding ratio (NFSR)	122.3	124.8
Minimal Net stable funding ratio required by the Supervisor of Banks	100.0	100.0
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Net stable funding ratio (NFSR)	127.7	125.6
Minimal Net stable funding ratio required by the Supervisor of Banks	100.0	100.0

26. Contingent Liabilities and Special Commitments

A. Off-Balance sheet Commitment at year-end regarding activity based[(1)] on loan payments

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans[(2)]				
Israeli currency - non linked	80	101	80	101
Israeli currency - linked to the CPI	381	360	354	335
Foreign currency	1	4	1	4
Total	**462**	**465**	**435**	**440**

Footnotes:

(1) Loans and deposits granted out of deposits, the repayment of which to the depositors is conditional upon the collection of these loans (or deposits),with a margin or with a collection commission (instead of a margin).

(2) Standing loans and government deposits made in respect thereof, totaling NIS 114 million (2022: NIS 97 million), have not been included in the table.

B. Cash flows for collection fees and commissions and interest spreads of activity based on loan requirements – Consolidated[(3)]

	December 31							
	2023							2022
	Up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total	Total
In Israeli currency, non-linked:								
Future contractual flows	-	-	-	1	3	-	4	6
Expected future flows based on Management's estimates of early repayments	-	-	-	1	3	-	4	6
Discounted expected future flows based on Management's estimates of early repayments[(1)]	-	-	-	1	2	-	3	3
In Israeli currency, CPI-linked:								
Future contractual flows	1	1	-	1	1	-	4	5
Expected future flows based on Management's estimates of early repayments	1	1	-	1	-	-	3	4
Discounted expected future flows based on Management's estimates of early repayments[(2)]	1	1	-	1	-	-	3	4

Footnotes:

(1) The capitalization was performed according to weighted rate of 4.22% (3.70% :2022)

(2) The capitalization was performed according to weighted rate of 1.44% (0.94% :2022)

(3) There were no cash flows in foreign currency during the reported periods

Information as to the granting of loans during the year by the mortgage banks - consolidated

	December 31	
	2023	2022
Loans out of deposits repayable according to the repayment of loans	29	29
Standing loans	16	19

26. Contingent Liabilities and Special Commitments (continued)

C. Contingent liabilities and other special commitments

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
	in NIS millions			
1. Commitment to acquire buildings and equipment[1]	141	515	123	397
2. Commitment to invest in private investment funds and in venture capital funds	897	847	-	-

Footnote:

(1) Mainly due to the Discount campus establishment, see item 12.

3. The Bank and Mercantile Discount Bank ("MDB"), which are members of the Maof Clearing House Ltd., are responsible towards the Maof Clearing House, together with the members of the Maof Clearing House, to any financial indebtedness arising from Maof Clearing House transactions (transactions regarding options and future contracts settled by the Maof Clearing House) made at the Stock Exchange. For this purpose, the Maof Clearing House established a risk fund. The Bank's share in the risk fund as of December 31, 2023, amounted to approx. NIS 344 million, comprising 54.7% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2023, amounted to approx. NIS 5 million, comprising 0.8% of the total amount of the Risk Fund as of that date. The two banks were required to provide collateral in favor of the Maof Clearing House by way of securities (Government bonds) in an amount that would cover their possible liability for their share in the risk fund, as stated, as well as an additional amount derived from the volume of operations in this field of each of the banks (see Note 27 D). Each of the banks is also committed to pay the Maof Clearing House any monetary charge that may result from its operations and from the operation of their customers for performing Maof transactions cleared at the Clearing House.
4. According to the articles of the Stock Exchange and the byelaws of the Tel Aviv Stock Exchange Clearing House, the members are committed towards the Clearing House to cover any amount resulting from the obligations on behalf of themselves or their customers as well as for other Stock Exchange members who are not members of the Clearing House and their customers, for transactions conducted by way of the Clearing House. Furthermore, each member is also responsible for his share of the Risk Fund, established for this purpose, based on the clearing ratio of turnovers of the members. As collateral for their obligations towards the Clearing House, the Bank and MDB pledged their rights to accounts maintained at the Clearing House (in which securities are deposited) and at the Bank of Israel (in which cash is deposited). (See Note 27 G).
5. The subsidiary of the Bank was engaged in providing a full array of trust and custodianship services and served, inter alia, as a trustee for certain bonds that were issued to the public pursuant to a prospectus and traded on the Tel-Aviv Stock Exchange. The company is preparing to close down its operations and it is left with only a small amount of activity.
6. a) The Bank's previous Articles of Association, which were amended in March 2002, prescribed that the Bank shall indemnify any person who serves or served as a representative of the Bank, or at its request, as a Director in another company in which the Bank has an interest, for the expenses incurred by such person in connection with legal proceedings instituted against him for acts of commission or omission in the course of fulfilling his duties as a Director of such other company, and for an amount he is ordered to pay under a judgment handed down in such legal proceedings, including by way of a settlement to which the Bank has agreed, unless the judicial authority in such proceedings has found that the acts as aforesaid on the part of such person were not made in good faith. The Bank is entitled to issue a letter of indemnity to any such Director of another company, including a Director of the Bank who serves as a Director in the other company, at terms and conditions approved by the Board of Directors. Accordingly, the Bank has issued letters of indemnity, unlimited as to amount, to Directors who serve or served at the Bank’s request in other companies held, directly or indirectly, by the Bank (see hereunder).
   b) According to the Bank's Articles of Association, any employee or clerk of the Bank who is not an executive officer, will be indemnified out of the Bank's funds for any liability incurred by him in his capacity as an employee or clerk of the Bank in defending himself in any legal proceedings, whether civil or criminal, in which a judgment is given in his favor or in which he is acquitted, and the Bank is entitled to indemnify him for any financial liability imposed on him in favor of another person for an act done in his capacity as an employee or clerk of the Bank.
   c) The Articles of Incorporation of certain consolidated subsidiaries of the Bank allow for indemnification of officers under certain conditions, subject to the provisions of the Law. Certain companies in certain cases granted such indemnification.

26. Contingent Liabilities and Special Commitments (continued)

d) Discount Manpikim Ltd.("Manpikim"), a wholly owned and controlled subsidiary of the Bank, gave a commitment in September 2006 for the indemnification of Directors and of whoever officiated as its CEO at that time, each of them separately, for a monetary liability that will be imposed on any of them and for reasonable litigation expenses, in connection with a publication of a shelf Prospectus of September 2006, and with an issue made by shelf offer reports during the period of twenty-four months from date of publication of the shelf Prospectus, as well as a private placement and the registration for trade according to a Prospectus, dated September 2006, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issuances, and in any case no more than NIS 1.5 billion (the consideration for the issue of debt notes according to this Prospectus amounted to approx. NIS 1,452 million). In September 2007, Discount Manpikim Ltd. approved a similar indemnify to the CEO appointed subsequently to the issue of the shelf prospectus, regarding shelf offering reports that were published subsequent to the date of the resolution, according to the said shelf prospectus.

e) In February 2008 Manpikim granted indemnification to directors as well as the CEO of the company, for each of them separately, for monetary liability that might be imposed on any of them and for reasonable litigation expenses in connection with the issue of the balance of the subordinated debt notes not yet issued, according to a shelf Prospectus dated September 28, 2008 and/or in connection with the publication of a shelf Prospectus of February 2008 and the issue of subordinated debt notes in accordance therewith, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 2 billion (the consideration for the issue of debt notes according to this Prospectus amounted to approx. NIS 1,967 million). This indemnification is in addition to the indemnification given in section "D" above.

f) Manpikim granted in February 2009 (within the framework of the resolution taken at a shareholders' meeting of Manpikim) indemnification to directors as well as the CEO of the company for each of them separately, for monetary liability that might be imposed on any of them and for reasonable litigation expenses in connection with the issue of subordinated capital notes according to the amended a shelf prospectus dated December 24, 2008, which was published on March 12, 2009, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issuances, and in any case no more than NIS 3 billion (the consideration for the issue of debt notes according to this Prospectus amounted to approx. NIS 2,408 million).

g) On February 26, 2019, the Bank approved the application to Manpikim of the group indemnification resolution dated February 26, 2016, according to which, the maximum amount of indemnification granted and which may be granted by the Bank to officers of the Bank and officers of its subsidiary companies, shall not exceed a cumulative amount equal to 25% of the equity capital of the Bank, as reflected in its most recent financial statements published proximately prior to the actual date of indemnification.

h) **Indemnification for Trustees for the holders of debt notes issued by the Bank and by Discount Manpikim.** According to the terms of the Deeds of Trust, the Trustees are entitled to indemnification by the Bank for reasonable expenses incurred in connection with action taken by power of their duty under the Deeds of Trust, as well as to indemnification for certain events according to the indemnification terms contained in the Deeds of Trust.

i) **Liability Insurance of Officers.** The Bank's special general meeting held on March 18, 2020, resolved to approve in advance the engagement of the Bank in an insurance policy covering the liability of Directors and officers, whether by way of purchasing a new policy or by way of extending the validity of the existing policy, within the power of the compensation policy that was approved by the same meeting, under the terms and limitations stated in the said compensation plan. Note 26 C, section 8 J of the financial statements as of December 31, 2019, described the Officers' insurance arrangements that had been in effect prior to the said decision.

j) **Advance exemption and a commitment to indemnify of directors and other officers.** On June 26, 2007 a General Meeting approved advance exemption from responsibility of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), subject to exceptions detailed in the decision, deriving from the Bank's articles regarding liability exemption.

In addition, the above mentioned special general meeting approved a commitment for indemnification of other directors and officers in the Bank as of the date of the decision (as detailed in the list appended to the announcement of the General Meeting), for monetary liabilities levied on them and for reasonable legal expenses, all in connection with raising of tier 1 capital implemented in the Bank in December 2006 and May 2007.

26. Contingent Liabilities and Special Commitments (continued)

The General Meeting of Shareholders from August 27, 2009 approved the granting of exemption and indemnification to Directors and other Officers appointed subsequently to June 2007 (the date on which the General Meeting of shareholders approved the granting of exemption and indemnification to acting Officers and to Officers that had acted in the past) as well as to Directors and other Officers that may be appointed in the future, excluding controlling shareholders for whom a specific resolution is required. In this framework, certain amendments to the indemnification letter have been approved, which will apply also to Directors and Officers who had been issued indemnification letters in June 2007.

k) At the general meeting held on September 9, 2013, it was resolved to amend the advance indemnification undertaking for directors and other officers of the Bank, including directors or other officers as they shall be from time to time, inter alia, according to the Improvement of Enforcement Measures at the Israel Securities Authority (Legislative Amendments), 5771-2011 and the Antitrust Law (Amendment No. 13), 5772-2012.

l) On December 2, 2015, the Bank's annual general meeting resolved to approve the updating of the resolution on the grant of an indemnification undertaking to the directors and officers serving with the Bank, including those who shall serve with the Bank from time to time, and to amend the Bank's articles and the compensation policy accordingly.

Under the amendment of the indemnification commitment, the maximum amount of indemnification was fixed at 25% of the equity value, as reflected in the last financial statements published prior to the date of the actual indemnification; the limit on the maximum indemnification amount, and also the requirement that the indemnification shall be given in connection with the events set forth in the appendix of the indemnification undertaking, shall apply only to a monetary obligation imposed on the officers and not for reasonable litigation expenses; the amended wording of the indemnification undertaking shall supersede the previous undertakings or other previous agreements between the Bank and the officers; however, if the terms of this undertaking worsen the terms of indemnification for the officer, or if this undertaking shall not be valid, the previous undertakings or the previous agreement shall apply.

m) **Exemption and a commitment to indemnify of Directors and Officers of MDB.** On November 29, 2009, MDB's General meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of MDB and providing a commitment for the indemnification of other Directors and officers and of certain of its subsidiaries, who held office at MDB and at those subsidiaries from 2002 onwards. The said commitment to indemnify and exemption were granted according to principles and group limitations approved by the Bank's board in July 2009. On October 31, 2012 and on March 24, 2013, the general meeting of shareholders of that bank approved amendments to sections regarding indemnification commitments granted to officers of the bank, as stated above, to add indemnification for administrative enforcement proceedings under various laws, as detailed in the articles, and which may be indemnified under the law. The General Meeting of Shareholders of MDB approved on January 31, 2016 amendments to the indemnification resolution, which was granted to officers of MDB, to agree with the indemnification terms granted to officers of Discount Bank.

The Compensation Committee of the Bank's Board of Directors decided on February 6, 2020 to enlarge the applicability of the exemption and of the said commitment for indemnification, to include also two former officers of Municipal Bank Ltd., for their responsibility for the preparation of the financial statements of Municipal Bank Ltd. at November 30, 2019, and for the period then ended.

A letter of commitment for the granting of exemption and indemnity has been extended so as to apply to additional senior employees.

n) **Exemption and a commitment to indemnify Directors and Officers of ICC and Diners.** In May 2017 'ICC's and Diners' general Meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of ICC and Diners, respectively, who held office at ICC and Diners, respectively, since the year 2011 onwards in ICC (in Diners since the year 2015). The said commitment to indemnify and exemption were granted according to principles and group limitations approved by the Bank's Board of Directors. The indemnification letters of ICC and Diners have been amended to agree with the indemnification terms granted to officers of Discount Bank.

o) **Indemnification of officers of subsidiary companies.** According to a policy decision regarding indemnity for officers of subsidiaries in the Discount Bank Group, amended and approved by the Bank`s Board of Directors in August 2021, the Bank is committed to indemnify acting officers of Discount Trust Company, Tafnit, Discount Capital, Discount Capital Underwriting Ltd. and Discount Leasing, under terms parallel to the terms granted to officers of the Bank. In August 2021 as stated, the Bank's Board of Directors approved amendments to the Group policy decisions regarding exemption and indemnification to officers of the Group.

p) In the December 2014 agreement for the sale of DBLA's operations, indemnities were granted to the buyer for various representations.

26. Contingent Liabilities and Special Commitments (continued)

q) In the November 2015 agreement for the sale of the customer operations of IDB (Swiss) Bank DBLA, indemnities were granted to the buyer, limited with regard to period and amount, for various representations.

According to the Swiss regulations, the records of IDB (Swiss) Bank, which was liquidated and struck off, have to be maintained for a period of ten years from date of termination of the banking activities.

7. The Bank's practice is to grant, from time to time, and at terms and circumstances customary in the banking business, letters of commitment and of indemnification, limited or unlimited in amount, and for limited or unlimited periods, and everything in the Bank's ordinary course of business. Inter alia, such letters of indemnity are granted within the framework of the regulations of the Clearing House as to lost checks; are granted to Receivers and Liquidators; are granted for negligence claims, to providers of various services including assessors, project manager etc.; to customers for lost check books; to credit card companies as part of the accountability with them; or indemnification granted as part of a contractual obligation.

This includes a full indemnification granted by the Bank to an assessor, in respect to any damage, which might be caused to him as a result of rendering valuation opinions, except in the case where gross negligence or malfeasance might be found; and a similar indemnification that the Bank gave to an expert who had provided the bank with an economic opinion.

8. a) The Bank has granted the International VISA Organization a guarantee unlimited in amount, securing the operations of ICC. Against this guarantee, ICC provided the Bank with a letter of indemnity.

b) The Bank issued a guarantee in the amount of approx. US$3 million, in favor of the MasterCard Worldwide organization, to secure the activity of ICC in the Organization.

c) ICC has granted an indemnification for all liabilities of its subsidiary companies: C.A.L (Financing), ICC Deposits and Yatzil Finance. Diners has granted an indemnification for all liabilities of Diners Financing.

9. **Various actions against the Bank and its consolidated subsidiaries.** Various actions are pending against the Bank and its consolidated subsidiaries. These include class action suits and applications to approve actions as class action suits. Among others, claims are raised in these claims with regard to the unlawful debiting of interest and/or the debiting of interest not according to agreements, unlawful charges of commission, failure to execute instructions, applications for the confirmation of attachment orders for attachments served by third parties on the assets of debtors which they allege are held by the Bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, applications for injunctions ordering the Bank to refrain from paying out bank guarantees or documentary credit, as well as allegations pertaining to securities, construction loans, applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 5741- 1981. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their counsels, respectively, as the case may be, adequate provisions have been included in the financial statements, where required. The total exposure for claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, has been assessed as reasonably possible, amounted to approx. NIS 678 million as of December 31, 2023.

9.1 On April 28, 2014, a lawsuit together with an application for its approval as a class action suit, were filed with the District Court Central Region against ICC and other credit card companies. The above application raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre-paid cards ("pre-paid"). A new application was filed on June 8, 2016, which assessed the damage for all defendants at approx. NIS 7 billion.

An application was filed with the Court on July 9, 2023, for the approval of a compromise arrangement between the Appellant and ICC and IsraCard. Following the signing of the compromise arrangement with ICC and IsraCard, MAX has also reached an arrangement with the Appellant. In view of the terms of the arrangement between the Appellant and MAX, ICC and IsraCard requested a respective amendment of their compromise arrangement. On December 26, 2023, the parties filed an amended application for approval of the compromise arrangement.

9.2 On February 21, 2017, the Bank received notice of a lawsuit together with an application for its approval as a class action suit, filed with the Tel Aviv- Jaffa District Court against the Bank. The application claims that the Bank charges customers entitled to be defined as a "small business", with fees and commissions that are not in agreement with the small business pricelist. It is further claimed that the Bank did not disclose to its business customers the option of being classified as a small business and the practical significance of such classification, a conduct that led to the charging of excess fees and commissions. The Claimants stated the amount of the claim at approx. NIS 261 million.

The Claimants have filed similar legal actions against additional banks. The respondent banks informed the Court that they agree to the consolidation of the hearing though not to the consolidation of the cases, so that a separate clarification of facts would be required for each of the respondents. At the hearing on April 6, 2021, the Court instructed a technical consolidation only of the actions for the hearing of proof, and clarified that each action would be decided on its own merits.

26. Contingent Liabilities and Special Commitments (continued)

On February 13, 2022, the Court addressed questions for consideration of the regulator. On August 22, 2022, the Regulator submitted his response. During March-April 2023 the hearing of evidence were conducted. On September 10, 2023, the parties informed the Court of their agreement to refer the case to mediation, following the unsuccessful mediation proceedings held earlier.

9.3 An action together with an application for approval of the action as a class action suit was filed against the Bank on June 21, 2018, with the Central District Court in Lod. As alleged by the Appellant, the Bank violates the provisions of the Guardian General Law, 5737- 1978, and the provisions of the Protection of Deposited Assets Law, 5725-1964, in that it does not report to the Custodian General its holding of an "abandoned asset". It is claimed that the Bank does not make reasonable efforts to locate the owners of the "abandoned asset", and causes damage to members of the class in that the Custodian General would have invested these funds in a most beneficial fashion suitable to the type of the abandoned asset, and would have made real efforts to locate the owners. The Appellant stated the amount of the claim for all class members at NIS 300 million. On September 29, 2021, the amended application for approval was filed.

On December 20, 2021, the Bank filed its response to the amended application, and on January 19, 2022, the Appellant responded to the response of the Bank to the amended application. On February 14, 2022, the parties informed of their intention to participate in an additional mediation process following the unsuccessful mediation proceedings held earlier.

9.4 On July 22, 2018, a claim and a petition for the claim’s approval as a class action were filed in the Tel Aviv District Court against ICC and two other credit card companies. The subject of the petition is paperless transactions (mainly telephone transactions) with companies engaged in direct marketing. It is alleged in the petition that the credit card companies have not prevented the companies engaged in direct marketing from exploiting the elderly and stealing their money in illegal transactions, executed by charging their credit cards. It is also alleged in the petition that the credit card companies should have prevented this phenomenon at the outset and, prior to entering into an engagement with the direct marketing companies, they should have checked the nature of these companies and their activity and should have verified that they were in full compliance with the law. The petitioners have assessed the amount of their claim in the sum of NIS 900 million for all the members of the group.

On December 27, 2021, the Government Attorney General filed notice of his appearance in the proceedings and has presented his position, which in essence states that it is possible to place responsibility upon the Respondents based on the general tort of negligence, while determining principles for the setting of limits to this duty. On August 21, 2022, the District Court handed a ruling dismissing the application for approval. On November 13, 2022, the Appellants filed an appeal against the ruling with the Supreme Court. On December 4, 2023, the Attorney General for the Government submitted its position to the Supreme Court. A hearing of the appeal was set for June 19, 2024.

9.5 On January 30, 2020, four lawsuits were filed with the Tel Aviv District Court against the Bank together with applications for their approval as class action suits. The lawsuits refer to a failure in the installation of a server on the PayBox payment application, a failure, which, as argued by the plaintiffs, caused them damages.

The amounts of the claims for all members of the class amount in the four applications to NIS 850 million, NIS 500 million, NIS 25 million and NIS 2.5 million, respectively.

The four Appellants informed on June 7, 2021, that they had reached agreement on the submission of a consolidated application for approval. A consolidated application was filed on August 23, 2021, in one case, and on August 29, 2021, the three applications in the other cases were struck off.

In the period from October 2021 to January 2022, the parties filed their argument briefs on the application for attaching evidence on behalf of the Appellants. On February 22, 2022, the Court upheld the application and instructed the attachment of the evidence. On April 3, 2022, the Bank filed its response to the application for approval. On October 19, 2022, the Appellants submitted their response to the response of the Bank. The parties agreed to take part in the mediation proceedings. Hearing of evidence is set for May 29, 2024.

9.6 On May 11, 2020, a statement of claim and a petition for its approval as a class action were filed against the Bank and against two other banks, at the Tel Aviv District Court.

The claimant alleges that the Bank has breached its duty of banking confidentiality in that it has granted international corporations, such as Facebook and Google, access to its digital platforms and is allowing them to gather private information on customers. It is alleged that the banks have made a deal with these international data corporations under which they received cheap and effective tools in return for violating customer privacy. As alleged by the petitioner, the Bank’s different documents have been drafted in an all-embracing and sweeping fashion without providing any explanation to customers on the nature of the data that is transferred and the customers' signature on these agreements should not be considered as consent to the transfer of information.

26. Contingent Liabilities and Special Commitments (continued)

The petitioner stated that the amount of the damage caused to all the class action members cannot be assessed.

On August 30, 2021, the banks filed an application for the deletion of items from the response brief of the Appellants. In the period from August to December 2021, the parties submitted their claims briefs on the application for dismissal. On September 27, 2023, the Court instructed deletion of items from the comments of the Appellants regarding the response by the banks. The Court also decided to admit the position of the Regulator regarding the issues in dispute. On January 23, 2024, the regulator informed that he is unable, at this stage, to take a stand. A hearing of the case is set for May 9, 2024

For details of an application for approval of an action as a class action involving a similar issue, filed against ICC and additional Respondents, see section 9.8 below.

9.7 On September 16, 2020, a claim together with an application for its approval as a class action were filed against MDB at the Jerusalem District Court. The Claimant alleges that as a condition for the grant of a state-guaranteed loan MDB requires to open a deposit from the loan funds, with id pledged to secure the repayment of the loan, namely that the amount of the loan actually received is the amount of the loan, net of the amount of the deposit. The Claimant also alleges that the loan documents do not mention the level of the effective interest, including all fees, interest and other payments that have to be made.

The Claimant has assessed the amount of the action for the whole group in the sum of approx. NIS 817 million, but noted that the exact amount will be determined once the material in MDB's possession is received.

On December 26, 2023, the parties filed an application for approval of a compromise arrangement, and the hearing of the application was set for April 16, 2024.

9.8 On April 13, 2021, ICC received notice of an application for approval of a class action. The application had been filed against fifteen financial bodies, including banks, credit card companies, insurance companies and investment houses. The subject of the action is the argument made by the Claimants that the Respondents provided third parties, including Google and its advertising services in particular, private, personal and confidential data on their customers using the Respondents' digital services, or who had done so during the seven years prior to the date of filing the action, without obtaining the said customers' consent, thus violating their rights to privacy in contravention of obligations imposed on the Respondents under the law.

The damage caused to the group, which the Claimants wish to represent, is estimated by the Claimants at amounts reaching millions of NIS. The Claimants state the amount of the personal damage for each Claimant at NIS 1,000 for non-monetary damage, and NIS 1,000 for the monetary damage.

Following the failure of the mediation proceedings conducted by the parties under the advice of the Court, hearings of evidence were conducted in February 2024 and two additional evidence dates were set for April 2024.

For details regarding an application for approval of an action as a class action in a similar matter, filed against the Bank and additional banks, see section 9.6 above.

10. Applications to approve certain actions against the Bank and its consolidated subsidiaries as class action suits and other actions for which it is not possible at this stage to evaluate their prospects of success:

A class action suit and applications to approve certain actions as class action suits, as well as other claims, are pending against the Bank and its consolidated subsidiaries, which, in the Bank's opinion, and based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, based on legal opinions, respectively, it is not possible at this stage to evaluate their prospects of success, and therefore no provision has been included in respect therewith.

10.1 On December 19, 2019, the Bank received a statement of claim together with a plea for deferment of the payment of Court fees, filed with the Tel Aviv-Yaffo District Court against the Bank and against five additional defendants. The claim had been filed by a commercial bank in the Ukraine, the Joint Stock Company Commercial Bank, Privat Bank, and the cause of action being fraud, embezzlement and deceit perpetrated by former controlling stockholders of the Plaintiff who are being sued in the statement of claim.

As argued in the statement of claim, the controlling stockholders of the Plaintiff had acted for the granting of loans by the Plaintiff to entities under their control, such loan monies being later transferred through bank accounts in order to hide their source, and finally usurped for the personal benefit of the controlling stockholders. It is further argued that as part of the fraud and embezzlement perpetrated according to the instructions of the controlling stockholders, an amount of US$1.2 billion was smuggled to Israel by way of monetary transfers from a bank account in Cyprus belonging to a company owned by the controlling stockholders to its account with the Bank. As described in the statement of claim, the said monetary transfers were made in the years from 2007 to 2011. According to the arguments of the Plaintiff by allowing these monetary transfers to and from the Bank, the Bank has caused damage to the Plaintiff, and this, as argued by the Plaintiff, is in contradiction to the duties applying to him under the Prohibition of Money Laundering Law in Israel.

26. Contingent Liabilities and Special Commitments (continued)

The amount of the claim against all defendants is stated at NIS 2.1 billion.

On March 18, 2020, the Court accepted the plaintiff's application and granted an order permitting the service of the statement of claim outside its jurisdiction.

On February 17, 2020, the Bank filed an application for the dismissal in limine of the claim or, alternately, for a stay of proceedings therein due to the parallel proceedings being conducted overseas. On May 17, 2020, the Court ruled to accept the Bank's application for an extension to the date for filing a statement of defense. On December 7, 2020, the Court ruled for the rejection of the application of the Bank for the in limine dismissal of the action.

At the request of the Claimant, the Court permitted the delivery of the statement of claim to a part of the Defendants, whose alleged place of residence is in the Ukraine; and this decision was appealed (not yet decided). Furthermore, at the request of the Bank dated May 26, 2021, the Court has extended the date for submission of the statement of defense until after a decision is given in the application for an Order under the money laundering prohibition laws, submitted by the Bank. In between, the Attorney General for the Government informed on October 28, 2021, of his intention to appear in the proceedings, and also stated his position, whereby, inter alia, he is opposed to the granting of an Order under the Prohibition of Money Laundering statutes. On October 17, 2021, the Bank filed an application for the stay of proceedings in Israel, inter alia, on the background of the existence of parallel proceedings in the Ukraine (not yet decided). A hearing of the preliminary applications was held on May 18, 2022. In continuation of the hearing, a legal process arrangement had been reached, which obviates, at this stage, a decision regarding the preliminary applications. The Bank submitted a statement of defense on August 3, 2022.

Since the filing of the action, the hearing of the case concentrates mostly on preliminary issues. Included in the above, inter alia, proceedings continued during February to April 2023, regarding applications denying jurisdiction ("Declinature") submitted by certain of the defendants, but the Declinatures have not been decided yet. In its decision of May 28, 2023, the Court admitted Declinatures, stating that Israel does not constitute the proper forum for the hearing of the action against the Appellants. An appeal against this decision was filed on September 13, 2023. On December 31, 2023, the District Court informed that the proceedings would be delayed until after the appeal is clarified. On January 25, 2024, the Respondents submitted their response to the appeal against the decision in the matter of the application regarding the Declinature and on March 4, 2024, the reply of the Appellant to the response by the Respondents was submitted.

10.2 On June 5, 2023, an application for approval of an action as a class action suit was delivered to the Bank, filed with the District Court-Central against Discount Bank and additional banks ("the Application"). Inter alia, it is being argued in the Application that the banks have to inform customers who have credit balances in their accounts, of the possibility to transfer such funds to an interest bearing daily deposit account, or automatically credit such customers with daily interest on their credit balances.

The damage claimed in the Application for the whole class amounts to over NIS 1 billion.

10.3 On June 25, 2023, a notice was delivered to the Bank of an action together with an application for its approval as a class action suit, filed with the Tel Aviv District Court against Discount Bank and against additional banks. It is, inter alia, argued in the application that despite instructions granting the banks the right to raise the interest rate during the period of engagement under agreements between the bank and its customers, the bank is not permitted to raise the interest rate on current account debit balances, interest on loans, etc., at the same rate by which the Bank of Israel raised the interest, inter alia, because the said instructions constitute depriving stipulations in a uniform contract, and the banks may raise the interest rate only while maintaining a proper, reasonable and fair margin between the interest charged and the interest credited.

The argued amount of the class damage (in respect of all the Defendants) is NIS 5.8 billion.

10.4 On July 24, 2023, the Bank had been delivered a claim together with an application for its approval as a class action, which had been filed in the Tel Aviv District Court against Israel Discount Bank and additional banks ("the Respondents"). It is alleged in the application, inter alia, that the Respondents do not disclose to their customers, who contact them via the Internet/the app requesting to place their funds on deposit, that the interest offered to them over said channel is lower than the interest offered/customary at the Respondents in relation to the same type of deposit which is given to a customer who makes contact over another channel or who bargains with the Bank. The amount of the damages claimed by the whole class amounts to NIS 984 million and is attributable to all the respondent banks collectively.

10.5 On August 9, 2023, a copy was delivered to the Bank, of a claim and an application for its approval as a class action, filed in the Tel Aviv District Court against the Bank and additional banks ("the Respondents"). It is alleged in the application, inter alia, that the Respondents require borrowers taking out a mortgage to insure the mortgaged property under a building insurance policy and do not inform the borrowers that there is no legal obligation to insure the property in order to take out a mortgage on it.

26. Contingent Liabilities and Special Commitments (continued)

10.6 (a) On November 1, 2023, an application against the Bank was filed with the Tel Aviv District Court, for approval as a class action suit of a lawsuit, the subject matter of which is the unlawful charging to customers of a document preparation commission upon renewal of a bank guarantee that does not involve preparation of new or additional collateral, and this, as argued in the application, in contradiction of that stated in the pricelist of the Bank relating to large businesses and in contradiction to the exemption paragraph appearing therein. The Claimant has attached an opinion rendered by an expert on its behalf assessing the damaged caused to the class at NIS 201 million.

It is noted that similar lawsuits have been lodged against MDB and the Bank, as detailed in sections (b) and (c) below.

(b) On August 7, 2017, a claim and an application for its approval as a class action were filed at the District Court in Tel-Aviv against MDB. It is alleged in the application that MDB charges fees for drawing up guarantee documents when extending a guarantee's validity, contrary to the contractual arrangement between the customer and the Bank, and it was notes that the estimated amount damages by all the members of the class is approx. NIS 24 million. On January 11, 2022, a ruling was given approving the conduct of the claim as a class action. The parties referred to mediation proceedings. An application for approval of the compromise agreement between the parties was filed with the Court on September 4, 2023. On January 11, 2024, the Attorney General's position regarding the compromise was submitted. On February 21, 2024, the parties submitted their joint position with respect to the position of the Attorney General for the Government.

(c) A lawsuit against the Bank was filed with the Tel Aviv District Court on October 23, 2023, together with an application to approve it as a class action suit. Due to the lack of full information, the amount claimed was stated at over NIS 2.5 million. Notwithstanding the above, the Claimant attempted to quantify the total class damage, based upon realization guarantees data published in the financial statements of the Bank, at an estimated amount of NIS 127 million.

(d) On January 8, 2024, the Bank filed an application to consolidate the application described in section (a) above with the application described in section (c) above or, alternatively, to dismiss one of them. In its ruling of February 29, 2024, the Court ordered the consolidation of the legal actions and the filing of an amended consolidated claims brief no later than April 1, 2024.

11. Discount Capital company invests in private equity funds, in venture capital funds and in non-financial corporations. As of December 31, 2023, the outstanding balance of investment commitments made by Discount Capital in funds and corporations amounted in total to NIS 881 (approx. US$243 million [as of December 31, 2022: NIS 847 million (approx. US$241 million)].

12. **Discount Campus.** In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that was planned to house the head offices of the Bank and of the subsidiaries in Israel – MDB, "Badal" Computer and Management Services and ICC. The investment in the project amounted on December 31, 2023, to NIS 1,870 million. The balance of the commitment for the project as of December 31, 2023, amounts to approx. NIS 61 million (all amounts do not include VAT).

In view of the expected separation of ICC from Discount Bank, the Boards of Directors of ICC and of the Bank approved in July 2023, the sale by ICC of its share in the Discount Campus to the Bank or one of its subsidiaries. The transaction is not yet consummated and, consummation thereof is expected in the upcoming months (except for the secondary computer facility of ICC, which, as planned, had been transferred to the Discount Campus). In January 2024, ICC signed agreements to carry out modification work to the building in Bnei Brak, which it has rented for a long term, and in the fields of communications and multimedia, with the total cost estimated at NIS 110 million.

27. Pledges, Restrictive Terms and Collateral

A. IDB Bank has pledged various loans and corporate bonds with the Federal Reserve Bank of New York (FRBNY). This pledge was made to secure credit from the FRBNY credit window as well as for credit within the framework of TAF tenders of this bank. The carrying value of the loans and securities pledged for FRBNY credit as of December 31, 2023 amounted to US$2,520 million (NIS 9,138 million) [as of - December 31, 2022: US$900 million (NIS 3,169 million)].

In addition, IDB Bank pledged loans in favor of the Federal Home Loan Bank, in the amount of US$1,324 million (NIS 4,802 million) as of December 31, 2023 as a collateral for deposits received from it [as at December 31, 2022: approx. US$1,279 million (NIS 4,502 million)].

B. The Bank is a member of the Euroclear Clearing House, which serves as a clearing system for transactions in securities traded on international markets, made through this clearing house. For this purpose, the Bank has pledged cash and securities in the amount of US$15 million (NIS 54 million) [as at December 31, 2022: US$15 million (NIS 53 million)].

C. The Bank deposits liquid assets with foreign brokers (in the United States) as collateral for option transactions performed by its customers by means of these brokers. In the past the Bank was required to deposit bonds as part of the said collateral. This requirement was changed during 2015, and the Bank is now required to deposit cash instead of bonds. The balance of the deposit as of December 31, 2023 amounted to approx. US$9 million (NIS 32 million) [as of: December 31, 2022: approx. US$8 million (NIS 28 million)].

27. Pledges, Restrictive Terms and Collateral (continued)

D. Note 26 C 3 above describes the risk fund established by the Maof clearing house. The Bank's share in the fund, deriving from the volume of the clearing activity on behalf of the Bank's customers as of December 31, 2023, amounted to approx. NIS 334 million (December 31, 2022: approx. NIS 234 million).

The balance of the security, which the Bank has to provide in favor of the clearing house (an off-balance sheet liability) based on scenarios devised by the Stock Exchange for the activity of the Bank's customers and for the Bank's activity itself (nostro) as of December 31, 2023, was approx. NIS 2,248 million (as of December 31, 2022: NIS 1,180 million).

According to the Memorandum and Bye Laws of the Maof clearing house all member of the clearing house, including the Bank signed pledge agreements to secure their liabilities in favor of the Maof clearing house and deposited liquid security only (State of Israel bonds and/or cash).

The Bank provided the Maof Clearing House with a first-degree pledge on all monies that had been deposited by the Bank in an account in the name of the Maof Clearing House at the Stock Exchange Clearing House and at an account in the name of the Maof Clearing House in another bank, all as collateral for amounts that the Bank will be liable for Maof transactions to which it is responsible towards the Maof Clearing House. The obligation is subject to conditions, and the Bank is entitled, under certain conditions, to demand the repayment of certain amounts.

It is noted that on October 27, 2016, the Board of Directors of the Stock Exchange, following resolutions of the Boards of Directors of the Maof clearing house and of the Stock Exchange clearing house, approved the opening of accounts for these clearing houses with the Bank of Israel, this to enable the clearing houses to deposit with the Bank of Israel the cash collateral provided by members of the clearing houses, and to amend accordingly the by-laws of the clearing houses.

In this framework, all members of the clearing houses, including the Bank, signed two additional pledge agreements, according to which, the rights of the members in the collateral accounts with the Bank of Israel would be pledged in favor of the Stock Exchange clearing house and the Maof clearing house, this in addition to earlier pledges and without derogating therefrom.

Accordingly, the Bank has pledged in favor of the Stock Exchange clearing house and the Maof clearing house, a first degree pledge and an assignment by way of a pledge, in an unlimited amount, on all its rights of whatever type and class, in each of its collateral accounts with the Bank of Israel, including all the rights to receive the funds deposited or registered to the credit of the said accounts, as well as the profits earned thereon and any right stemming from or related to these accounts, and all as guarantee for the settlement of all obligations of the Bank towards the clearing houses, as may be from time to time.

Under these accounts the Bank has pledged bonds and cash in favor of the Maof Clearing House, the amount of which at December 31, 2023, totaled NIS 2,768 million (December 31, 2022: NIS 1,614 million).

MDB has created a similar pledge in favor of the Maof Clearing House. The value of the collateral amounted on December 31, 2023, to approx. NIS 15 million (December 31, 2022: approx. NIS 15 million). In addition, pledged in favor of the Maof Clearing House were cash the balance of which amounted at December 31, 2023, to approx. NIS 7 million (December 31, 2022: approx. NIS 7 million).

Balance of collateral provided to the Maof Clearing House

	Balance as of December 31, 2023	Highest balance during the year 2023	Average balance* in 2023	Balance as of December 31, 2022
	In NIS millions			
Cash	1,669	1,757	1,340	728
Securities	1,121	1,158	1,140	908

* The reporting is made on the basis of the month-end balances.

E. As collateral for the obligations of Yatzil Finance, the said company registered an assignment by way of a pledge and a fixed and floating pledges on all its rights according to agreements with business houses for the discount of IsraCard, VISA, American Express and Diners Club Israel vouchers, and all the rights to receive amounts and payments from IsraCard, ICC, American Express and Diners, under power of assignment of rights and under the business house agreement. As of balance sheet date there was no obligation towards the banks.

27. Pledges, Restrictive Terms and Collateral (continued)

F. (1) The Bank enters into Credit Support Appendix (CSA) and ISDA types agreements with various banks and customers intended to minimize mutual credit risks arising on derivative trading between the parties. According to these agreements, the value of the inventory of derivative transactions made by the parties is measured periodically, and in the event that the net exposure of one of the parties exceeds a predetermined limit, that party is obligated to transfer deposits designed for the delimitation of the exposure to the other party, until the date of the next measurement. As of December 31, 2023, the Bank allocated in favor of various banks deposits in a total amount of NIS 698 million (December 31, 2022: NIS 845 million).

In addition, in July 2015, the Bank signed an engagement agreement with Merrill Lynch International, which will serve as a clearing house member for the Bank for the central clearing of certain transactions in derivatives, included within the framework of the EMIR reform.

An agreement was signed in January 2020 with CITI Global Markets admitting it as an additional member of the clearing house.

(2) IDB Bank also engages in CSA type agreements. As of December 31, 2023, IDB Bank did not provide deposits in favor of various banks [as of: December 31, 2022: US$2 million (NIS 6 million)].

(3) MDB also engages in CSA type agreements. As of December 31, 2023, MDB provided in favor of various banks deposits in a total amount of NIS 33 million (as of: December 31, 2022: NIS 21 million).

G. As detailed in Note 26 C 4 above, according to the requirements of the Articles of the Tel-Aviv Stock Exchange Ltd. and the bylaws of the Stock Exchange Clearing House (hereinafter: "the Clearing House" or "Stock Exchange Clearing House"), the Bank pledged as security for its obligations towards the Clearing House all the Bank's rights in the security deposit managed by the Clearing House (in which the Bank deposits securities) and all its rights in funds under the name of the Clearing House, deposited with the Bank of Israel. The value of the collateral amounted on December 31, 2023, to NIS 245 million (as at December 31, 2022: NIS 226 million).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2023, amounted to NIS 17 million (December 31, 2022: NIS 38 million).

Balance of collateral provided to the Stock Exchange Clearing House

	Balance as of December 31, 2023	Highest balance during the year 2023	Average balance* in 2023	Balance as of December 31, 2022
	In NIS millions			
Cash	262	262	213	156
Securities	-	134	111	108

* The reporting is made on the basis of the month-end balances.

H. (1) In July 2007, the Bank of Israel launched a system for the real-time settlement of large amounts (RTGS), enabling the swift and final transfer of funds between banks connected to the system, provided that the liquidity balance at these banks shall not fall below the volume required for effecting such money transfers. In view of the settlement arrangements, the Bank may require from time to time credit from the Bank of Israel for short periods of time. To secure the repayment in full of amounts due to the Bank of Israel for such credit, as part of joining the security management system operated in this respect by the Stock Exchange Clearing House, the Bank pledged on November 24, 2010, in favor of the Bank of Israel a first degree floating pledge on its holdings in Israel Government bonds, deposited at the Stock Exchange Clearing House in an account in the Bank of Israel's name (in addition to a floating pledge, at first charge, registered on these assets on July 26, 2007).

The Bank deposited with the said account bonds valued, as at December 31, 2023, at approx. NIS 1.3 billion (December 31, 2022: NIS 7.1 billion).

MDB has also registered a similar pledge in favor of the Bank of Israel and has deposited with the Bank of Israel account at the Stock Exchange Clearing House bonds valued, as at December 31, 2023, at approx. NIS 1,864 million (December 31, 2022: approx. NIS 3,406 million).

With effect from April 2020, the Bank is taking loans from the Bank of Israel within the framework of the Bank of Israel's long-term loans plan, which is intended to enlarge the supply of credit to small and minute businesses. As security for this credit, the Bank and MDB have pledged bonds to the Bank of Israel, the value of which as of December 31, 2023 was NIS 4.5 billion (December 31, 2022: NIS 9.7 billion).

27. Pledges, Restrictive Terms and Collateral (continued)

(2) In the first quarter of 2023, the Bank registered in favor of the Bank of Israel, pledges on its rights with respect of mortgage backed loans (including all receipts and income derived there from). All this, within the framework and as part of a project pledging rights involving mortgages in favor of the Bank of Israel, in order to improve the Bank's liquidity (by releasing government bonds pledged to the Bank of Israel at the beginning of the Corona crisis). As part of the process, the Bank is required to abide by strict covenants (in connection with the pledged loan portfolio) as determined by the Bank of Israel procedures in the matter.

Details of the pledge agreement

	Balance as of December 31, 2023	Highest balance during the year 2023	Average balance* in 2023	Balance as of December 31, 2022
	In NIS millions			
Pledged securities (market value)	3,178	11,630	7,112	10,504
Pledge on rights with respect to mortgages	8,136	8,371	8,043	-

* The report is based on outstanding monthly balances.

I. (1) In addition, the Bank and MDB make deposits from time to time with the Bank of Israel, constituting (together with the securities deposited, as stated) the collateral for the credit granted by the Bank of Israel to the Bank and to MDB, within the framework of credit tenders. For that purpose the Bank has pledged in favor of the Bank of Israel foreign bonds deposited with Euroclear, and as of December 31, 2023, there was no such pledge [as of December 31, 2022, there was no such pledge].

(2) In the first quarter of 2023, the Bank deposited funds in a deposit account opened in the name of BCC in the RTGS system at the Bank of Israel and, in the second quarter, the Bank placed monetary deposits that are held in the name of ABS Charge Cards and in the name of ABS ATM in the Bank of Israel's clearinghouse account. This, in the framework of the clearing default arrangement, the purpose of which is to ensure the timely conclusion of the daily clearing operation (similar deposits were made by MDB).

Details of the deposits

	Balance as of December 31, 2023	Highest balance during the year 2023	Average balance* in 2023	Balance as of December 31, 2022
	In NIS millions			
Deposits with the Bank of Israel	40,437	56,768	48,694	56,959
Deposits from the Bank of Israel	4,472	9,733	7,371	9,731
BCC deposits with the Bank of Israel	330	333	323	-
ABS charge cards deposits with the Bank of Israel	60	60	48	-

* The report is based on outstanding monthly balances.

J. According to Section 6(a) of the State Loans Law, 1979, the Accountant General announces from time to time, the appointment of certain entities, including the Bank, as "market makers" for government bonds. Under the market making operations, the Treasury grants the market makers a facility for the borrowing of government bonds to cover short sale bond transactions, as part of the market making. Against the use of this facility, the Bank deposits with the Treasury as collateral amounts equal to the amount of the borrowed bonds. The balance of this deposit at December 31, 2023 was NIS 851 million (December 31, 2022: NIS 857 million).

27. Pledges, Restrictive Terms and Collateral (continued)

K. The sources and uses of the securities that had been received and which the Bank is entitled to sell or pledge, at their fair value, before setoffs effect

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
The sources:				
Securities against cash	851	857	851	857
Total	**851**	**857**	**851**	**857**
The uses:				
Securities sold under repurchase arrangements	15,446	4,067	15,446	4,067
Total	**15,446**	**4,067**	**15,446**	**4,067**

L. Details of securities pledged to the lenders

	Consolidated		The Bank	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
Trading Securities	3,805	976	3,805	976
Available for sale securities	12,011	6,955	7,004	3,308
Held-to-maturity bonds	10,529	8,428	7,110	8,428
Total	**26,345**	**16,359**	**17,919**	**12,712**

These securities have been deposited as collateral with the lenders, who are not permitted to sell or pledge them.

M. **RIPO transactions.** During 2022, the Bank started to engage in RIPO transactions for different periods, within the framework of which, the Bank had delivered bonds as security obtaining cash against it. As of December 31, 2023, the value of the security provided in this respect amounted to NIS 15.5 billion [as of December 31, 2022: NIS 4.3 billion].

Data on collaterals provided for repurchase transactions

	Balance as of December 31, 2023	Highest balance during the year 2023	Average balance* in 2023	Balance as of December 31, 2022
	In NIS millions			
Cash	11	11	11	215
Securities	15,446	15,446	12,500	4,067

* Calculated on the basis of the month-end balances, starting June 2022.

N. IDB Bank pledged loans of the "securities pledged for deposits" type – a pledge of CLO-type securities to local authorities against deposits that are received from them. As of December 31, 2023, there was no such pledge [as of December 31, 2022: approx. NIS 39 million (approx. US$11.2 million)].

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates

General

1. Transactions in derivative financial instruments involve market, credit and liquidity risks.
   a. The Bank's activity involves exposure to various risks, including market risk. The market risk includes, *inter alia*, linkage base, interest and exchange rate fluctuation risks, in the correlation characteristics between the various economic parameters, etc. As part of the overall Bank's strategy for the management of exposure to market risk, as stated above, the Bank combines in its financial asset and liability management and as a market maker, a wide range of derivative financial instruments. Among these financial instruments are: Forward transactions, IRS, FRA, Swap, options purchased and written by the Bank, which hedge against changes in foreign currency exchange rates, inflation rates, interest rates, share indices, components of embedded options, etc.
   b. The credit risk involved in these transactions derives from the fact that the stated amount of the transaction does not necessarily reflect its credit risk. Such risk is measured according to the maximum amount of the loss that the Bank might sustain if the other party to the transaction does not honor its terms, net of amounts subject to enforceable set-off agreements.
   The credit risk in the course of the engagement period is estimated at the amount upon exiting the transaction plus future potential exposure as determined in Proper Conduct of Banking Business Directive No. 313 on the computation of the limitation on borrower indebtedness. The Bank's policy as regards the collateral required for customer derivative financial instrument transactions resembles the policy regarding other credit granted, excluding customers' Maof activity. The collateral comprises various types. The Bank may also grant credit facilities to customers without collateral, as the case may be.
   c. Liquidity risk derives from the fact that it might not be possible to rapidly contain the exposure involved, mainly in markets of low level trading.
2. Some of the derivatives are intended and qualified as fair value hedging and cash flow hedging, some are purchased and written as part of the Bank's asset and liability management (derivatives not-for-trade) and the balance of which if defined as derivatives held for trade.
3. The Bank may enter an agreement that in itself does not constitute a derivative instrument, but which contains an embedded derivative. For each contract the Bank evaluates whether the economic characteristics of the embedded derivative are not clearly and closely connected to those of the hosting agreement, and examines whether an independent instrument with the same terms of the embedded instrument would have agreed with the definition of a derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely connected to the economic characteristics of the host contract, and also that a separate instrument having the same terms would have been qualified as a derivative instrument, the embedded derivative is separated from the hosting agreement, treated as a derivative in its own right and stated in the balance sheet together with the hosting agreement at its fair value, changes in its fair value being taken currently to the statement of profit and loss. Where the Bank is unable to reliably identify and measure an embedded derivative for its separation from the hosting agreement, the agreement as a whole is stated in the balance sheet at fair value.
4. The Bank maintains a written documentation of all hedging relations between hedging instruments and the items hedged, as well as the object and strategy of risk management by way of creating the various hedging transactions. The documentation includes the specific identification of the asset, liability, the firm commitment or the anticipated transaction, which were determined as the hedged item, and the manner in which the hedging instrument is expected to hedge against risks involved in the hedged item. The Bank assesses the effectiveness of hedging relations both at the beginning of the transaction and on a continuing basis, according to its risk management policy.
5. The Bank discontinues its hedging accounting from the following points onward when:
   a. It has been determined that the derivative is no longer effective, setting off the changes in fair value or the cash flows of the hedged item;
   b. The derivative expires, sold, cancelled or realized;
   c. The designation of the derivative as a hedging derivative is discontinued, due to the probability of the execution of the transaction being remote;
   d. A firm hedging commitment no longer complies with the definition of a firm commitment;
   e. Management cancels the designation of the derivative as a hedging derivative.

   When hedging accounting is discontinued due to the fact that a derivative is no longer qualified as an effective fair value hedge, the derivative will continue to be stated in the balance sheet at its fair value, however the hedged asset or liability will no longer be adjusted for changes in fair value. When hedging accounting is discontinued due to the fact that the hedged item no longer qualifies as a firm commitment, the derivative will continue to be stated in the balance sheet at fair value and every asset or liability which previously were stated based on the recognition as a firm commitment shall be removed from the balance sheet and recognized as profit or loss in the statement of profit and loss for the reported period.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

6. Fair value hedging

   Certain derivatives are being designated by the Bank as hedging fair value. The changes in the fair value of derivatives hedging against exposure to changes in fair value of an asset or liability, are currently recognized in the statement of profit and loss, as well as the changes in the fair value of the hedged item, that could be related to the risk being hedged.

7. Cash flow hedge

   The subsidiary IDB Bank designates certain derivatives as hedge for cash flow. The change in the fair value of derivatives hedging exposure to changes in cash flows from assets, liabilities or from foreseen transactions, are firstly recognized in other comprehensive income and thereafter, when the hedged item affects profit or loss, it is reclassified to the statement of profit and loss.

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	December 31, 2023			December 31, 2022		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
Interest rate contracts						
Forward and Futures contracts	5,677	15,101	20,778	7,022	(7)27,591	34,613
Options written	-	1,812	1,812	1	1,152	1,153
Options purchased	-	650	650	1	1,011	1,012
Swaps(1)	38,877	183,879	222,756	35,073	153,515	188,588
Total(2)	**44,554**	**201,442**	**245,996**	**42,097**	**183,269**	**225,366**
Of which: Hedging derivatives(5)	13,973	-	13,973	10,109	-	10,109
Foreign currency contracts						
Forward and Futures contracts(3)	1,229	57,520	58,749	1,387	42,502	43,889
Options written	-	11,150	11,150	-	10,218	10,218
Options purchased	1,088	11,949	13,037	-	11,044	11,044
Swaps	41,859	92,375	134,234	34,032	105,180	139,212
Total	**44,176**	**172,994**	**217,170**	**35,419**	**168,944**	**204,363**
Contracts on shares						
Options written	9	14,554	14,563	27	7,661	7,688
Options purchased(4)	9	14,554	14,563	28	7,661	7,689
Swaps	-	6,839	6,839	-	937	937
Total	**18**	**35,947**	**35,965**	**55**	**16,259**	**16,314**
Commodities and other contracts						
Forward and Futures contracts	-	13	13	-	839	839
Options written	-	-	-	-	-	-
Options purchased	-	-	-	-	-	-
Total	**-**	**13**	**13**	**-**	**839**	**839**
Total stated amount	**88,748**	**410,396**	**499,144**	**77,571**	**369,311**	**446,882**

Footnotes:

	December 31, 2023	December 31, 2022
(1) Of which: swaps on which the Bank pays a fixed interest	31,490	30,891
(2) Of which: shekel/CPI swaps	15,550	18,610
(3) Of which: spot foreign currency swap contracts	2,064	2,272
(4) Of which: traded on the Stock Exchange	14,563	(6)7,689

(5) The Bank conducts accounting hedge by way of IRS transactions.

(6) Reclassified – improvement in the classes of derivatives presented in this line.

(7) Reclassified due to changes in the data.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

A. Volume of activity on a consolidated basis

2. Gross fair value of derivative instruments

	Gross amount of assets for derivative instruments			Gross amount of liabilities for derivative instruments		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
	December 31, 2023					
Interest rate contracts	803	4,046	4,849	430	3,628	4,058
Of which: Hedging	406	-	406	185	-	185
Foreign currency contracts	380	3,803	4,183	898	3,452	4,350
Contracts on shares	1	2,074	2,075	1	2,074	2,075
Total assets/liabilities for derivatives gross[(1)]	**1,184**	**9,923**	**11,107**	**1,329**	**9,154**	**10,483**
Balance sheet balance	1,184	9,923	11,107	1,329	9,154	10,483
Of which: not subject to net settlement arrangement or similar arrangements	25	1,776	1,801	22	1,804	1,826
	December 31, 2022					
Interest rate contracts	947	4,986	5,933	671	4,930	5,601
Of which: Hedging	606	-	606	158	-	158
Foreign currency contracts	1,074	3,394	4,468	53	2,680	2,733
Contracts on shares	1	1,021	1,022	1	1,021	1,022
Total assets/liabilities for derivatives gross[(1)]	**2,022**	**9,401**	**11,423**	**725**	**8,631**	**9,356**
Balance sheet balance	2,022	9,401	11,423	725	8,631	9,356
Of which: not subject to net settlement arrangement or similar arrangements	55	516	571	21	969	990

Footnote:

(1) Of which: NIS 1 million (December 31, 2022: NIS 3 million) positive gross fair value of assets stemming from embedded derivative instruments. Of which: NIS 14 million (December 31, 2022: NIS 8 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

B. Accounting hedge

1. Effect of accounting hedge

	For the year ended December 31	
	2023	2022
	Interest income (expenses)	
	In NIS millions	
Profit (loss) on fair value hedge		
Interest rate contracts		
Hedged items	230	(465)
Hedging derivatives	(195)	454

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

B. Accounting hedge (continued)

2. Items hedged by fair value hedge

	December 31, 2023			December 31, 2022		
	Book value	Cumulative fair value adjustments increasing the book value		Book value	Cumulative fair value adjustments increasing the book value	
		Existing hedge relations	Discontinued hedge relations		Existing hedge relations	Discontinued hedge relations
	In NIS millions					
Securities	9,006	(130)	-	6,606	(407)	-
Deposits from the public	2,275	-	-	2,296	(109)	-
Bonds and subordinated debt notes	2,942	26	-	-	-	-

3. Effect of activity in derivative instruments for cash flow hedging

A. Amounts recognized in other comprehensive income for cash flow hedging

	For the year ended December 31		
	2023	2022	2021
	Profit (loss) recognized in accumulated other comprehensive income for the derivative		
	In NIS millions		
Hedge contract			
Interest rate	16	(27)	(3)

B. Amounts reclassified from other comprehensive income to profit and loss

	For the year ended December 31		
	2023	2022	2021
	Profit (loss) recognized in accumulated other comprehensive income for the derivative		
	In NIS millions		
Hedge contract			
Interest rate	21	4	(1)

4. Effect of Derivatives not designated as hedging instruments on statement of profit and loss

	For the year ended December 31		
	2023	2022	2021
	Profit (loss) recognized in income (expenses) from activity in derivative instruments[1]		
	In NIS millions		
Interest rate contracts	123	(289)	83
Foreign currency contracts	2,220	3,402	(892)
Contracts on shares	-	2	2
Total	**2,343**	**3,115**	**(807)**

Footnote:
(1) Included in the item Non-interest financing income (expenses)

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

C. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Institutional bodies	Others	Total
				In NIS millions			
				December 31, 2023			
Balance sheet balance of assets for derivative instruments[2]	114	3,100	36	13	2,003	5,841	11,107
Gross amounts not offset in the balance sheet:							
Credit risk mitigation for financial instruments[4]	-	(1,689)	-	-	(806)	(2,828)	(5,323)
Credit risk mitigation for cash collateral received	-	(875)	(25)	-	(1,139)	(540)	(2,579)
Adjusting net balance sheet with balance sheet credit risk	-	-	-	-	-	(1,141)	(1,141)
Balance sheet credit risk for derivative instruments	**114**	**536**	**11**	**13**	**58**	**1,332**	**2,064**
Off-balance sheet credit risk for financial instruments[1]	1,894	1,838	25	42	1,759	1,648	7,206
Total credit risk for derivative instruments	**2,008**	**2,374**	**36**	**55**	**1,817**	**2,980**	**9,270**
Balance sheet balance of liabilities for financial instruments[3]	1,741	2,806	-	186	2,140	3,610	10,483
Gross amounts not offset in the balance sheet:							
Financial instruments	-	(1,689)	-	-	(806)	(2,828)	(5,323)
Pledged cash collateral	-	(500)	-	-	(907)	(53)	(1,460)
Net amount of liabilities for derivative instruments	**1,741**	**617**	**-**	**186**	**427**	**729**	**3,700**
				December 31, 2022			
Balance sheet balance of assets for derivative instruments[2]	75	3,227	61	-	[5]2,381	[5]5,679	11,423
Gross amounts not offset in the balance sheet:							
Credit risk mitigation for financial instruments[6]	-	(1,728)	-	-	[5](207)	[5](3,680)	(5,615)
Credit risk mitigation for cash collateral received	-	(858)	(34)	-	[5](1,639)	[5](370)	(2,901)
Adjusting net balance sheet with balance sheet credit risk	-	-	-	-		(544)	(544)
Balance sheet credit risk for derivative instruments	**75**	**641**	**27**	**-**	**535**	**1,085**	**2,363**
Off-balance sheet credit risk for derivative instruments[1]	1,533	1,737	125	34	[5]1,536	[5]1,357	6,322
Total credit risk for derivative instruments[5]	**1,608**	**2,378**	**152**	**34**	**2,071**	**2,442**	**8,685**
Balance sheet balance of liabilities for derivative instruments[3]	925	3,115	1	113	[5]277	[5]4,925	9,356
Gross amounts not offset in the balance sheet:							
Financial instruments	-	(1,728)	-	-	[5](207)	[5](3,680)	(5,615)
Pledged cash collateral	-	(660)	-	(94)	[5](54)	[5](134)	(942)
Net amount of liabilities for derivative instruments	**925**	**727**	**1**	**19**	**16**	**1,111**	**2,799**

Footnotes:

(1) The difference, if positive, between the total amount regarding derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, after credit risk mitigation, and between the balance sheet credit risk regarding derivative instruments of the borrower.

(2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 11,106 million included in the item assets for derivative instruments (December 31, 2022: NIS 11,420 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 10,469 million included in the item liabilities for derivative instruments (December 31, 2022: NIS 9,348 million).

(4) The fair value of derivative instruments subject to netting agreements is in the amount of NIS 5,323 million (December 31, 2022: NIS 5,615 million).

(5) Reclassified due to changes in the data.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

D. Due dates - Par value: consolidated period end balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
			In NIS millions		
			December 31, 2023		
Interest rate contracts					
Shekel/CPI	1,346	5,030	7,116	2,058	15,550
Other	46,687	50,757	90,270	42,732	230,446
Foreign currency contracts	133,975	64,490	13,406	5,299	217,170
Contracts on shares	29,951	5,863	151	-	35,965
Commodities and other contracts	13	-	-	-	13
Total	**211,972**	**126,140**	**110,943**	**50,089**	**499,144**
			December 31, 2022		
Interest rate contracts					
Shekel/CPI	1,955	5,082	9,237	2,336	18,610
Other	31,389	[1]50,906	78,884	45,577	206,756
Foreign currency contracts	116,167	62,468	19,760	5,968	204,363
Contracts on shares	15,242	978	94	-	16,314
Commodities and other contracts	-	839	-	-	839
Total	**164,753**	**120,273**	**107,975**	**53,881**	**446,882**

Footnotes:

Reclassified due to changes in the data.

29. Regulatory Operating Segments and Geographical Areas Information

A. General

As stated in Note 1 D 21 above, the report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks.

The regulatory operating segments have been defined by the Bank of Israel in an amendment to the Directive, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments, as follows:

"Household segment" - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

"Private banking segment" - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

"Minute businesses segment" - businesses, the annual turnover of which is lower than NIS 10 million.

"Small businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

"Medium businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

"Institutional bodies segment" – activity with institutional bodies, as defined in the Regulation of Engagement in Investment Consulting, Marketing of Investments and Investment Portfolio Management Law, 1995, including provident funds, pension funds, further education funds, mutual trust funds, ETN's, insurance companies, Stock Exchange members managing customer funds.

"Large businesses segment" - Businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

"Financial management segment" - includes the following activities: trading activity, asset and liability management activity, non-financial investment activity and other activities.

"Other segment" - including discontinued operations, profits from reserves and other results relating to employee rights not attributed to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

The following definitions were used in reporting the above operating segments:

"Private individuals" – individuals, including those managing a joint account, who at date of the report are not in debt to the Bank, or whose debt is classified to the economic sector "Private individuals – housing loans and other".

"Business" - a customer who is not included in the definition of "Private individuals" and is not an institutional body or a banking corporation.

"Annual turnover" – annual sales turnover or volume of annual income.

"Trading operations" – investment in securities held for trading, market-making activity regarding securities and derivative instruments, operation in derivative instruments not intended for hedge operations and are not part of the Bank's asset and liability management, repurchase and securities lending transactions, short sale of securities, securities underwriting services.

"Asset and liability management activity" – including investment in available-for-sale bonds and held-to-maturity bonds that are not allocated to other operating segments (where the borrower has no indebtedness to the Bank except for securities), derivative hedging instruments and derivative instruments comprising part of the asset and liability management, deposits with banks and from banks in Israel and abroad, hedge or cover for exchange rate differences of investments in overseas extensions, deposits with or of governments.

"Non-financial investment activity" – investment in available-for-sale equities and investments in associates.

"Other activities" – management services, operating, trusteeship and custodian services for banks, advisory services, sales operations and management of credit portfolios, financial product development operations.

"Asset management" – including assets of provident funds, mutual funds, further education funds, securities of customers, loans managed by the Bank, and assets stemming from collection based operations. Attribution of the average balance of managed assets to the various segments is made according to the segment to which the provident funds and further education funds are allocated, or according to the segment to which the customer holding mutual fund units is attributed.

For details on managerial segments, see Note 30 below.

B. Classification of customers in certain cases. It is noted that, where the Bank has no information as to the business turnover of a commercial customer, who has no debts to the Bank, he may be classified with the relevant regulatory operating segment based on the number of employees in his business or on the value of the total assets of the business or on the total financial assets of the customer held with the Bank, according to the rules detailed in the Directive.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

It is further noted that, where, in the opinion of the Bank, the income turnover of a business customer does not reflect the volume of his operations, he may be classified as follows: if his total indebtedness is equal to or higher than NIS 100 million, he may be classified to the large businesses segment; where his total indebtedness is less than NIS 100 million, he may be classified to the relevant segment according to the number of his employees or the total assets in the balance sheet of the business, according to the rules detailed in the Directive.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, according to the new instructions, in particular information regarding their business turnover, various actions had been taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments. It is noted however, that the volume of classified customers, based on an estimate, continues to decline over the years.

C. **The principal assumptions, estimates and principles used in the preparation of segment information**

The classification of the business results of the Group into the various regulatory operating segments, as stated above, was prepared based on the principles, assumptions and estimates detailed hereunder:

1. **Income**

Net interest income. The segment is credited with the margin resulting from the difference between the effective interest on loans granted to customers of the segment and the interest paid on deposits of customers of the segment and the transfer prices. The transfer prices reflect the marginal alternative cost of financing sources or the application thereof. The margins are set at the date the transaction is entered into and stay in effect for the duration of the transaction free of market risks. According to this methodology, earning or losses from financing operations resulting from changes in market conditions, including linkage differentials are taken to the "Financial Management" segment presented as inter-segment operations.

Income earned on the Bank's nostro securities and from deposits from the public are also reflected in the Financial Management segment.

Credit loss expenses are included in the segment in which the activity of the customer is reflected, for which the expenses have been written. In the same manner, collection is also reflected in the segment in which the activity of the customer is reflected. The collection of debts from prior years, in material amounts, is included in the large businesses segment.

Non-interest income. Non-interest income that the Bank collects from its customers are charged partly to the activity segment of the customer and partly in the financial management segment.

2. **Expenses**

The allocation of expenses to segments of operation is based on the following stages:

- Direct expenses of all Bank units, which can be identified at the unit level, are charged directly to the units generating the expense (e.g., branches, operational units, and head office units);
- Operating and other expenses of all Bank units, such as: computer expenses, maintenance, administrative and other operating expenses, which cannot be directly allocated to a specific unit, are charged to all units based on different allocation keys (such as: number of staff, number of customers, number of ATM stations, quantity and volume of operations);
- Expenses of operational units allocated according to the items above, are charged to profit units and management and control units (such as: head office, internal audit unit, strategy and finance unit) based on different allocation keys, such as: number of staff, quantity and volume of operations;
- Expenses of the management and control units are allocated to the profit units based on different allocation keys (such as: number of staff, quantity and volume of operations);
- Distribution of expenses of the profit units to customers of the unit is based on quantity and volume of operations (excluding securities activity, foreign trade according to the number of transactions only), including expenses for mutual services provided by the branch outlay to customers belonging to other divisions;
- Calculating the expenses of operating segments by totaling the expenses allocated to customers belonging to the relevant segment.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

Taxes on income. The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 34.19% (2022: 34.19%). Segments showing a loss recorded a tax income computed also on the basis of the statutory tax rate. The difference between the net statutory tax recognized in the operating segments and the provision for taxes as recorded in profit and loss, is attributed to segments, mainly on the basis of the operating expenses ratio.

3. **Allocation of capital and computation of the return**

Shareholders' equity and subordinated capital notes, being part of the financing sources of credit, are being allocated to each segment for its risk assets. According to directives of the Supervisor of Banks, the sector of operations is credited with imputed interest on the capital allocated to them, on the basis the risk assets attributed to the sector.

The average balance of risk assets presented in the Note was computed in relation to risk assets calculated according to the principles of Basel III.

Computation of the return in each segment was made according to the equity attributed, as stated, to the segment: 9.2% in 2023, 9.19% in 2022, 8.16% in 2021.

4. **Presentation of inter-segment expenses**

The accountability between the profit centers in the Bank is made as described in section 2 above, by a mechanism that allocates the total amount of expenses to the Bank's customers, using various activity indices, and not by allocating the expenses to the profit centers (and the "sale" of inter-segment services). According to the system described above, each customer "bears" its own relevant expenses, which are accumulated in the various segments according to the affiliation of customers to these segments.

The format described above does not allow the determination as to what expenses of one segment were charged to another segment (referred to in the reporting format as "inter-segment activity"). The Supervisor of Banks permitted the Bank to report on the basis of the mechanism it developed for allocating income and expenses, and inconsequence thereof not to report inter-segment transfers.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

D. information regarding regulatory operating Segments, consolidated

	For the year ended December 31, 2023				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	5,602	20	3,409	1,362	4,002
Interest expenses To external sources	1,267	745	1,064	595	1,890
Net interest income from external sources	4,335	(725)	2,345	767	2,112
Net interest income Intersegmental	661	1,111	438	(17)	(567)
Total net Interest income	4,996	386	2,783	750	1,545
Non-interest financing income from external sources	1,573	(301)	192	59	227
Non-interest financing income Intersegmental	392	388	423	97	226
Total Non-interest financing income	1,965	87	615	156	453
Total income	**6,961**	**473**	**3,398**	**906**	**1,998**
Credit loss expenses (expenses release)	490	-	366	192	410
Operating and other expenses	3,670	129	1,440	294	784
Profit before taxes	**2,801**	**344**	**1,592**	**420**	**804**
Provision for taxes on profit	958	118	548	145	300
Profit after taxes	**1,843**	**226**	**1,044**	**275**	**504**
Bank's share in profits of Associates, net of tax effect	-	-	-	-	-
Net Profit from ordinary operations before Attributed to the non-controlling interests	1,843	226	1,044	275	504
Net Profit from ordinary operations Attributed to the non-controlling interests	(69)	-	(17)	(5)	(19)
Net Profit(Loss) Attributed to the bank's shareholders	**1,774**	**226**	**1,027**	**270**	**485**
Balance of Average Assets	98,528	544	41,948	18,738	64,826
Of which - Investment in Associates	-	-	-	-	-
Of which - Balance of Average credit to the public(3)	97,667	478	41,439	18,753	63,906
Balance of credit to the public at the period end(3)	101,552	(4)454	42,203	20,053	67,479
Balance of impaired non-accruing balance of debts in arrear for over ninety days	520	-	791	303	780
Other problematic debts	476	-	818	752	1,521
Balance of allowance for credit losses	1,236	2	1,127	435	1,101
Net accounting write-offs	(263)	-	(143)	(42)	19
Balance of Average Liabilities	99,901	22,460	54,749	18,068	50,903
Of which - Balance of Average Deposits from the public	95,696	22,316	49,106	16,745	45,151
Balance of deposits from the public at the period end	95,619	23,529	47,388	17,674	49,214
Balance of Average Risk-assets(1)	73,976	963	42,616	19,992	73,685
Balance of Risk-assets at the period end(1)	73,876	955	42,821	20,685	73,562
Balance of Average assets under management(2)	36,373	25,920	31,608	9,014	48,125
Net interest income:					
Margin from credit activity to the public	2,245	4	1,492	462	1,030
Margin from deposits activity from the public	2,526	380	1,132	212	238
Other	225	2	159	76	277
Total net interest income	**4,996**	**386**	**2,783**	**750**	**1,545**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 4,200 million.

						International operations	
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
29	3,625	18,049	116	2,147	400	2,663	20,712
1,447	1,377	8,385	273	1,074	44	1,391	9,776
(1,418)	2,248	9,664	(157)	1,073	356	1,272	10,936
1,508	(3,134)	-	373	(12)	(361)	-	-
90	(886)	9,664	216	1,061	(5)	1,272	10,936
155	3,129	5,034	37	114	(47)	104	5,138
(145)	(1,381)	-	-	-	-	-	-
10	1,748	5,034	37	114	(47)	104	5,138
100	**862**	**14,698**	**253**	**1,175**	**(52)**	**1,376**	**16,074**
4	9	1,471	(7)	38	-	31	1,502
67	527	6,911	200	815	40	1,055	7,966
29	**326**	**6,316**	**60**	**322**	**(92)**	**290**	**6,606**
9	136	2,214	25	110	(33)	102	2,316
20	**190**	**4,102**	**35**	**212**	**(59)**	**188**	**4,290**
-	(11)	(11)	-	-	-	-	(11)
20	179	4,091	35	212	(59)	188	4,279
-	23	(87)	-	-	-	-	(87)
20	**202**	**4,004**	**35**	**212**	**(59)**	**188**	**4,192**
604	124,790	349,978	1,575	29,280	13,878	44,733	394,711
-	478	478	-	-	-	-	478
569	-	222,812	1,545	28,724	-	30,269	253,081
1,354	-	233,095	1,557	28,289	-	29,846	262,941
-	-	2,394	-	109	-	109	2,503
-	-	3,567	81	2,939	-	3,020	6,587
9	-	3,910	11	293	-	304	4,214
-	-	(429)	-	(10)	-	(10)	(439)
30,419	49,631	326,131	8,695	27,904	2,983	39,582	365,713
30,363	-	259,377	8,714	27,949	-	36,663	296,040
29,005	-	262,429	8,999	26,169	-	35,168	297,597
1,004	20,723	232,959	1,794	33,162	2,763	37,719	270,678
977	20,499	233,375	1,878	32,737	1,779	36,394	269,769
90,700	518	242,258	18,551	-	-	18,551	260,809
3	-	5,236	54	756	-	810	6,046
83	-	4,571	162	305	-	467	5,038
4	(886)	(143)	-	-	(5)	(5)	(148)
90	**(886)**	**9,664**	**216**	**1,061**	**(5)**	**1,272**	**10,936**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

D. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2022				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	4,151	18	2,094	710	1,946
Interest expenses To external sources	380	176	246	141	558
Net interest income from external sources	3,771	(158)	1,848	569	1,388
Net interest income Intersegmental	(690)	359	107	(66)	(263)
Total net Interest income	3,081	201	1,955	503	1,125
Non-interest financing income from external sources	1,086	(854)	(269)	(411)	(62)
Non-interest financing income Intersegmental	799	933	869	556	513
Total Non-interest financing income	1,885	79	600	145	451
Total income	**4,966**	**280**	**2,555**	**648**	**1,576**
Credit loss expenses (expenses release)	222	1	89	35	70
Operating and other expenses	3,393	111	1,371	281	703
Profit before taxes	**1,351**	**168**	**1,095**	**332**	**803**
Provision for taxes on profit	435	56	368	110	270
Profit after taxes	**916**	**112**	**727**	**222**	**533**
Bank's share in profits of Associates, net of tax effect	-	-	-	-	-
Net Profit from ordinary operations before Attributed to the non-controlling interests	916	112	727	222	533
Net Profit (Loss) from ordinary operations Attributed to the non-controlling interests	(67)	-	(6)	(1)	(5)
Net Profit Attributed to the bank's shareholders	**849**	**112**	**721**	**221**	**528**
Balance of Average Assets	89,445	614	40,563	16,400	53,485
Of which - Investment in Associates	-	-	-	-	-
Of which - Balance of Average credit to the public(3)	88,604	546	40,085	16,432	52,872
Balance of credit to the public at the period end(3)	97,457	(4)490	41,185	17,224	58,407
Balance of impaired non-accruing balance of debts in arrear for over ninety days	355	-	667	191	339
Other problematic debts	436	-	320	448	303
Balance of allowance for credit losses	977	2	407	518	302
Net accounting write-offs	(120)	-	(2)	4	(40)
Balance of Average Liabilities	97,253	19,631	54,086	15,908	45,147
Of which - Balance of Average Deposits from the public	93,478	19,503	48,853	14,775	41,171
Balance of deposits from the public at the period end	94,036	22,319	47,752	15,093	48,002
Balance of Average Risk-assets(1)	65,601	665	39,641	16,549	57,782
Balance of Risk-assets at the period end (1)	70,055	772	40,541	17,082	65,667
Balance of Average assets under management(2)	36,229	23,664	33,570	9,276	54,756
Net interest income:					
Margin from credit activity to the public	(5)2,048	(5)7	(5)1,422	(5)383	(5)916
Margin from deposits activity from the public	966	193	484	98	137
Other	(5)67	(5)1	(5)49	(5)22	(5)72
Total net interest income	**3,081**	**201**	**1,955**	**503**	**1,125**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 3,992 million.
(5) Reclassified – Beginning with the third quarter of 2023 report, the theoretical interest on the equity attributable to each segment is presented on other margin instead of in margin from the activity of providing credit to the public. The comparative data have been reclassified accordingly.

				International operations			
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
9	1,250	10,178	62	1,257	203	1,522	11,700
445	686	2,632	55	296	24	375	3,007
(436)	564	7,546	7	961	179	1,147	8,693
501	52	–	148	(5)	(143)	–	–
65	616	7,546	155	956	36	1,147	8,693
(527)	5,087	4,050	34	115	52	201	4,251
539	(4,209)	–	–	–	–	–	–
12	878	4,050	34	115	52	201	4,251
77	**1,494**	**11,596**	**189**	**1,071**	**88**	**1,348**	**12,944**
(2)	–	415	2	(10)	–	(8)	407
59	465	6,383	145	646	43	834	7,217
20	**1,029**	**4,798**	**42**	**435**	**45**	**522**	**5,320**
6	387	1,632	14	143	17	174	1,806
14	**642**	**3,166**	**28**	**292**	**28**	**348**	**3,514**
–	27	27	–	–	–	–	27
14	669	3,193	28	292	28	348	3,541
–	33	(46)	–	–	–	–	(46)
14	**702**	**3,147**	**28**	**292**	**28**	**348**	**3,495**
630	117,756	318,893	1,606	27,146	12,024	40,776	359,669
–	466	466	–	–	–	–	466
599	–	199,138	1,572	26,574	–	28,146	227,284
416	–	215,179	1,578	27,531	–	29,109	244,288
–	–	1,552	–	83	–	83	1,635
1,460	–	2,967	40	2,061	–	2,101	5,068
719	–	2,925	18	266	–	284	3,209
(96)	–	(254)	–	3	–	3	(251)
26,545	39,769	298,339	8,632	26,178	1,752	36,562	334,901
26,515	–	244,295	8,685	26,339	–	35,024	279,319
29,655	–	256,857	8,274	27,162	–	35,436	292,293
767	18,279	199,284	1,792	29,126	2,452	33,370	232,654
886	17,950	212,953	1,805	29,872	2,817	34,494	247,447
87,877	461	245,833	14,252	–	–	14,252	260,085
[5]3	–	[5]4,779	30	697	–	727	[5]5,506
61	–	1,939	125	259	–	384	2,323
[5]1	616	[5]828	–	–	36	36	[5]864
65	**616**	**7,546**	**155**	**956**	**36**	**1,147**	**8,693**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

D. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2021				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,852	8	1,557	454	1,207
Interest expenses To external sources	171	37	58	17	70
Net interest income from external sources	2,681	(29)	1,499	437	1,137
Net interest income Intersegmental	(709)	78	(77)	(63)	(265)
Total net Interest income	1,972	49	1,422	374	872
Non-interest financing income from external sources	2,160	456	938	236	538
Non-interest financing income Intersegmental	(460)	(372)	(369)	(111)	(144)
Total Non-interest financing income	1,700	84	569	125	394
Total income	**3,672**	**133**	**1,991**	**499**	**1,266**
Credit loss expenses (expenses release)	(162)	(1)	(211)	50	(339)
Operating and other expenses	3,268	85	1,372	278	682
Profit before taxes	**566**	**49**	**830**	**171**	**923**
Provision for taxes on profit	171	16	276	56	309
Profit after taxes	**395**	**33**	**554**	**115**	**614**
Bank's share in profits of Associates, net of tax effect	-	-	-	-	-
Net Profit(Loss) from ordinary operations before Attributed to the non-controlling interests	395	33	554	115	614
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	(70)	-	(4)	(1)	(4)
Net Profit(Loss) Attributed to the bank's shareholders	**325**	**33**	**550**	**114**	**610**
Balance of Average Assets	76,734	441	37,297	13,854	47,026
Of which - Investment in Associates	-	-	-	-	-
Of which - Balance of Average credit to the public(3)	75,984	394	36,769	13,881	46,768
Balance of credit to the public at the period end(3)	83,635	(4)440	39,031	14,770	50,393
Balance of impaired non-accruing balance of debts in arrear for over ninety days	549	-	704	355	352
Other problematic debts	326	272	501	226	270
Balance of allowance for credit losses	959	274	441	179	297
Net accounting write-offs	(38)	(6)	(8)	17	44
Balance of Average Liabilities	94,492	17,786	50,710	11,246	32,807
Of which - Balance of Average Deposits from the public	90,413	17,690	45,074	10,125	28,753
Balance of deposits from the public at the period end	89,965	18,999	47,703	12,780	35,267
Balance of Average Risk-assets(1)	56,272	529	35,643	14,044	51,558
Balance of Risk-assets at the period end (1)	60,900	569	37,729	14,953	53,314
Balance of Average assets under management(2)	34,434	24,478	29,574	7,710	47,071
Net interest income:					
Margin from credit activity to the public	(5)1,750	(5)4	(5)1,327	(5)356	(5)839
Margin from deposits activity from the public	214	45	90	16	24
Other	(5)8	(5)-	(5)5	(5)2	(5)9
Total net interest income	**1,972**	**49**	**1,422**	**374**	**872**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 3,315 million.

(5) Reclassified – Beginning with the third quarter of 2023 report, the theoretical interest on the equity attributable to each segment is presented on other margin instead of in margin from the activity of providing credit to the public. The comparative data have been reclassified accordingly.

	Institutional bodies	Financial management	Total Domestic operations	International operations: Private Individuals	Business operations	Other	Total International operations	Total
	13	456	6,547	45	751	148	944	7,491
	48	465	866	24	60	12	96	962
	(35)	(9)	5,681	21	691	136	848	6,529
	64	972	–	59	(11)	(48)	–	–
	29	963	5,681	80	680	88	848	6,529
	130	(727)	3,731	51	103	77	231	3,962
	(120)	1,576	–	–	–	–	–	–
	10	849	3,731	51	103	77	231	3,962
	39	**1,812**	**9,412**	**131**	**783**	**165**	**1,079**	**10,491**
	(23)	7	(679)	(3)	(11)	–	(14)	(693)
	64	415	6,164	132	497	65	694	6,858
	(2)	**1,390**	**3,927**	**2**	**297**	**100**	**399**	**4,326**
	(2)	552	1,378	–	96	42	138	1,516
	-	**838**	**2,549**	**2**	**201**	**58**	**261**	**2,810**
	–	20	20	–	–	–	–	20
	–	858	2,569	2	201	58	261	2,830
	–	22	(57)	–	–	–	–	(57)
	-	**880**	**2,512**	**2**	**201**	**58**	**261**	**2,773**
	878	97,398	273,628	1,421	23,254	10,921	35,596	309,224
	–	362	362	–	–	–	–	362
	853	–	174,649	1,431	23,411	–	24,842	199,491
	1,337	–	189,606	1,549	25,041	–	26,590	216,196
	–	990	2,950	–	199	–	199	3,149
	940	–	2,535	38	2,000	–	2,038	4,573
	590	–	2,740	8	292	–	300	3,040
	(18)	–	(9)	–	(47)	–	(47)	(56)
	18,849	30,692	256,582	8,634	21,850	1,477	31,961	288,543
	18,817	–	210,872	8,620	21,814	–	30,434	241,306
	22,383	–	227,097	8,621	25,189	–	33,810	260,907
	1,078	16,427	175,551	1,642	25,451	2,213	29,306	204,857
	817	16,400	184,682	1,701	26,744	2,194	30,639	215,321
	84,472	345	228,084	13,464	–	–	13,464	241,548
	[5]11	–	[5]4,287	33	600	–	633	[5]4,920
	18	–	407	47	80	–	127	534
	[5]–	963	[5]987	–	–	88	88	[5]1,075
	29	**963**	**5,681**	**80**	**680**	**88**	**848**	**6,529**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. Private individuals – operations in Israel, consolidated

	For the year ended December 31, 2023								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income From external sources	3,328	931	1,343	5,602	18	-	2	20	5,622
Interest expenses To external sources	-	-	1,267	1,267	-	-	745	745	2,012
Net interest income from external sources	3,328	931	76	4,335	18	-	(743)	(725)	3,610
Net interest income Intersegmental	(2,453)	(15)	3,129	661	(12)	-	1,123	1,111	1,772
Total net Interest income	875	916	3,205	4,996	6	-	380	386	5,382
Non-interest financing income From external sources	11	1,460	102	1,573	-	1	(302)	(301)	1,272
Non-interest financing income Intersegmental	-	-	392	392	-	-	388	388	780
Total Non-interest financing income	11	1,460	494	1,965	-	1	86	87	2,052
Total income	**886**	**2,376**	**3,699**	**6,961**	**6**	**1**	**466**	**473**	**7,434**
Credit loss expenses	84	291	115	490	-	-	-	-	490
Operating and other expenses	259	1,570	1,841	3,670	1	-	128	129	3,799
Profit before taxes	**543**	**515**	**1,743**	**2,801**	**5**	**1**	**338**	**344**	**3,145**
Provision for taxes on profit	186	185	587	958	2	1	115	118	1,076
Profit after taxes	**357**	**330**	**1,156**	**1,843**	**3**	**-**	**223**	**226**	**2,069**
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(69)	-	(69)	-	-	-	-	(69)
Net Profit Attributed to the bank's shareholders	**357**	**261**	**1,156**	**1,774**	**3**	**-**	**223**	**226**	**2,000**
Balance of average Assets	66,820	16,487	15,221	98,528	383	64	97	544	99,072
Of which - Balance of average credit to the public[3]	67,008	15,960	14,699	97,667	385	64	29	478	98,145
Balance of credit to the public at the period end[3]	[4]68,777	18,432	14,343	101,552	[4]377	59	18	454	102,006
Balance of impaired non-accruing	259	177	41	477	-	-	-	-	477
Balance of debts in arrear for over ninety days	-	-	43	43	-	-	-	-	43
Balance of average Liabilities	97	2,954	96,850	99,901	-	59	22,401	22,460	122,361
Of which - Balance of average Deposits from the public	-	12	95,684	95,696	-	-	22,316	22,316	118,012
Balance of deposits from the public at the period end	-	17	95,602	95,619	-	-	23,529	23,529	119,148
Balance of average Risk-assets[1]	38,803	18,112	17,061	73,976	279	64	620	963	74,939
Balance of Risk-assets at the period end [1]	38,835	17,870	17,171	73,876	265	62	628	955	74,831
Balance of average assets under management[2]	389	-	35,984	36,373	-	-	25,920	25,920	62,293
Net interest income:									
Margin from credit activity to the public	723	901	621	2,245	4	-	-	4	2,249
Margin from deposits activity from the public	-	-	2,526	2,526	-	-	380	380	2,906
Other	152	15	58	225	2	-	-	2	227
Total net interest income	**875**	**916**	**3,205**	**4,996**	**6**	**-**	**380**	**386**	**5,382**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public - the recorded amount of the debt is presented.

(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 4,200 million.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. Private individuals – operations in Israel, consolidated (continued)

	For the year ended December 31, 2022								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income From external sources	2,533	725	893	4,151	13	-	5	18	4,169
Interest expenses To external sources	-	-	380	380	-	-	176	176	556
Net interest income from external sources	2,533	725	513	3,771	13	-	(171)	(158)	3,613
Net interest income Intersegmental	(1,784)	(17)	1,111	(690)	(8)	-	367	359	(331)
Total net Interest income	749	708	1,624	3,081	5	-	196	201	3,282
Non-interest financing income From external sources	12	1,373	(299)	1,086	-	-	(854)	(854)	232
Non-interest financing income Intersegmental	-	-	799	799	-	-	933	933	1,732
Total Non-interest financing income	12	1,373	500	1,885	-	-	79	79	1,964
Total income	**761**	**2,081**	**2,124**	**4,966**	**5**	**-**	**275**	**280**	**5,246**
Credit loss expenses	60	95	67	222	1	-	-	1	223
Operating and other expenses	259	1,482	1,652	3,393	1	-	110	111	3,504
Profit (loss) before taxes	**442**	**504**	**405**	**1,351**	**3**	**-**	**165**	**168**	**1,519**
Provision for taxes (tax savings) on profit	148	179	108	435	1	-	55	56	491
Profit (loss) after taxes	**294**	**325**	**297**	**916**	**2**	**-**	**110**	**112**	**1,028**
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	-	(67)	-	(67)	-	-	-	-	(67)
Net Profit Attributed to the bank's shareholders	**294**	**258**	**297**	**849**	**2**	**-**	**110**	**112**	**961**
Balance of average Assets	59,251	14,704	15,490	89,445	390	54	170	614	90,059
Of which - Balance of average credit to the public(3)	59,389	14,450	14,765	88,604	391	54	101	546	89,150
Balance of credit to the public at the period end(3)	(4)64,593	17,917	14,947	97,457	(4)396	58	36	490	97,947
Balance of impaired non-accruing	229	42	39	310	-	-	-	-	310
Balance of debts in arrear for over ninety days	-	-	45	45	-	-	-	-	45
Balance of average Liabilities	167	2,935	94,151	97,253	1	50	19,580	19,631	116,884
Of which - Balance of average Deposits from the public	-	12	93,466	93,478	-	-	19,503	19,503	112,981
Balance of deposits from the public at the period end	-	11	94,025	94,036	-	-	22,319	22,319	116,355
Balance of average Risk-assets(1)	33,758	16,130	15,713	65,601	279	56	330	665	66,266
Balance of Risk-assets at the period end (1)	36,773	17,105	16,177	70,055	269	57	446	772	70,827
Balance of average assets under management(2)	368	-	35,861	36,229	-	-	23,664	23,664	59,893
Net interest income:									
Margin from credit activity to the public	(5)706	(5)704	(5)638	(5)2,048	(5)5	(5)-	(5)2	(5)7	(5)2,055
Margin from deposits activity from the public	-	-	966	966	-	-	193	193	1,159
Other	(5)43	(5)4	(5)20	(5)67	(5)-	(5)-	(5)1	(5)1	(5)68
Total net interest income	**749**	**708**	**1,624**	**3,081**	**5**	**-**	**196**	**201**	**3,282**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 3,992 million.
(5) Reclassified – Beginning with the third quarter of 2023 report, the theoretical interest on the equity attributable to each segment is presented on other margin instead of in margin from the activity of providing credit to the public. The comparative data have been reclassified accordingly.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Small, minute, medium and large businesses - operations in Israel, consolidated

	For the year ended December 31, 2023									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income From external sources	1,114	2,295	3,409	401	961	1,362	1,337	2,665	4,002	8,773
Interest expenses From external sources	171	893	1,064	53	542	595	264	1,626	1,890	3,549
Net interest income from external sources	943	1,402	2,345	348	419	767	1,073	1,039	2,112	5,224
Net interest income Intersegmental	(307)	745	438	(154)	137	(17)	(543)	(24)	(567)	(146)
Total net Interest income	636	2,147	2,783	194	556	750	530	1,015	1,545	5,078
Non-interest financing income From external sources	12	180	192	26	33	59	159	68	227	478
Non-interest financing income Intersegmental	45	378	423	1	96	97	(27)	253	226	746
Total Non-interest financing income	57	558	615	27	129	156	132	321	453	1,224
Of which - Credit Card income	-	164	164	-	42	42	-	157	157	363
Total income	**693**	**2,705**	**3,398**	**221**	**685**	**906**	**662**	**1,336**	**1,998**	**6,302**
Credit loss expenses	128	238	366	41	151	192	374	36	410	968
Operating and other expenses	211	1,229	1,440	34	260	294	95	689	784	2,518
Profit (loss) before taxes	**354**	**1,238**	**1,59 2**	**146**	**274**	**420**	**193**	**611**	**804**	**2,816**
Provision for taxes on profit	120	428	548	49	96	145	69	231	300	993
Profit (loss) after taxes	**234**	**810**	**1,044**	**97**	**178**	**275**	**124**	**380**	**504**	**1,823**
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(17)	(17)	-	(5)	(5)	-	(19)	(19)	(41)
Net Profit (loss) Attributed to the bank's shareholders	**234**	**793**	**1,027**	**97**	**173**	**270**	**124**	**361**	**485**	**1,782**
Balance of average Assets	15,537	26,411	41,948	5,694	13,044	18,738	20,533	44,293	64,826	125,512
Of which - Balance of average credit to the public(3)	15,735	25,704	41,439	5,768	12,985	18,753	20,085	43,821	63,906	124,098
Balance of credit to the public at the period end(3)	16,351	25,852	42,203	6,740	13,313	20,053	20,776	46,703	67,479	129,735
Balance of impaired non-accruing	277	442	719	58	244	302	687	93	780	1,801
Balance of debts in arrear for over ninety days	14	58	72	-	1	1	-	-	-	73
Balance of average Liabilities	7,721	47,028	54,749	1,918	16,150	18,068	7,200	43,703	50,903	123,720
Of which - Balance of average Deposits from the public	7,590	41,516	49,106	1,899	14,846	16,745	7,108	38,043	45,151	111,002
Balance of deposits from the public at the period end	6,896	40,492	47,388	2,071	15,603	17,674	8,633	40,581	49,214	114,276
Balance of average Risk-assets(1)	15,548	27,068	42,616	5,938	14,054	19,992	23,419	50,266	73,685	136,293
Balance of Risk-assets at the period end (1)	15,665	27,156	42,821	6,800	13,885	20,685	24,301	49,261	73,562	137,068
Balance of average assets under management(2)	385	31,223	31,608	47	8,967	9,014	1,463	46,662	48,125	88,747
Net interest income:										
Margin from credit activity to the public	403	1,089	1,492	137	325	462	379	651	1,030	2,984
Margin from deposits activity from the public	170	962	1,132	34	178	212	59	179	238	1,582
Other	63	96	159	23	53	76	92	185	277	512
Total net interest income	**636**	**2,147**	**2,783**	**194**	**556**	**750**	**530**	**1,015**	**1,545**	**5,078**

Footnotes:

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets - including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public - the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Small, minute, medium and large businesses - operations in Israel, consolidated (continued)

	For the year ended December 31, 2022									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income From external sources	633	1,461	2,094	178	532	710	650	1,296	1,946	4,750
Interest expenses From external sources	41	205	246	11	130	141	62	496	558	945
Net interest income from external sources	592	1,256	1,848	167	402	569	588	800	1,388	3,805
Net interest income Intersegmental	(93)	200	107	(45)	(21)	(66)	(158)	(105)	(263)	(222)
Total net Interest income	499	1,456	1,955	122	381	503	430	695	1,125	3,583
Non-interest financing income From external sources	(52)	(217)	(269)	14	(425)	(411)	190	(252)	(62)	(742)
Non-interest financing income Intersegmental	111	758	869	17	539	556	(45)	558	513	1,938
Total Non-interest financing income	59	541	600	31	114	145	145	306	451	1,196
Of which - Credit Card income	-	155	155	-	36	36	-	142	142	333
Total income	**558**	**1,997**	**2,555**	**153**	**495**	**648**	**575**	**1,001**	**1,576**	**4,779**
Credit loss expenses	63	26	89	20	15	35	126	(56)	70	194
Operating and other expenses	217	1,154	1,371	36	245	281	99	604	703	2,355
Profit before taxes	**278**	**817**	**1,095**	**97**	**235**	**332**	**350**	**453**	**803**	**2,230**
Provision for taxes on profit	89	279	368	32	78	110	119	151	270	748
Profit after taxes	**189**	**538**	**727**	**65**	**157**	**222**	**231**	**302**	**533**	**1,482**
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(6)	(6)	-	(1)	(1)	-	(5)	(5)	(12)
Net Profit Attributed to the bank's shareholders	**189**	**532**	**721**	**65**	**156**	**221**	**231**	**297**	**528**	**1,470**
Balance of average Assets	14,209	26,354	40,563	4,318	12,082	16,400	17,665	35,820	53,485	110,448
Of which - Balance of average credit to the public(3)	14,329	25,756	40,085	4,346	12,086	16,432	17,291	35,581	52,872	109,389
Balance of credit to the public at the period end(3)	15,034	26,151	41,185	5,016	12,208	17,224	18,887	39,520	58,407	116,816
Balance of impaired non-accruing	201	399	600	31	159	190	226	113	339	1,129
Balance of debts in arrear for over ninety days	11	56	67	1	-	1	-	-	-	68
Balance of average Liabilities	8,330	45,756	54,086	2,008	13,900	15,908	7,104	38,043	45,147	115,141
Of which - Balance of average Deposits from the public	8,149	40,704	48,853	1,976	12,799	14,775	6,991	34,180	41,171	104,799
Balance of deposits from the public at the period end	7,660	40,092	47,752	1,823	13,270	15,093	7,702	40,300	48,002	110,847
Balance of average Risk-assets(1)	14,352	25,289	39,641	4,316	12,233	16,549	21,034	36,748	57,782	113,972
Balance of Risk-assets at the period end (1)	14,565	25,976	40,541	4,985	12,097	17,082	22,584	43,083	65,667	123,290
Balance of average assets under management(2)	428	33,142	33,570	216	9,060	9,276	2,101	52,655	54,756	97,602
Net interest income:										
Margin from credit activity to the public	(4)400	(4)1,022	(4)1,422	(4)99	(4)284	(4)383	(4)369	(4)547	(4)916	(4)2,721
Margin from deposits activity from the public	80	404	484	17	81	98	34	103	137	719
Other	(4)19	(4)30	(4)49	(4)6	(4)16	(4)22	(4)27	(4)45	(4)72	(4)143
Total net interest income	**499**	**1,456**	**1,955**	**122**	**381**	**503**	**430**	**695**	**1,125**	**3,583**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public - the recorded amount of the debt is presented.
(4) Reclassified – Beginning with the third quarter of 2023 report, the theoretical interest on the equity attributable to each segment is presented on other margin instead of in margin from the activity of providing credit to the public. The comparative data have been reclassified accordingly.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Financial Management Segment – domestic operations, consolidated (continued)

	For the year ended December 31, 2023				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income From external sources	330	3,295	-	-	3,625
Interest expenses To external sources	-	1,377	-	-	1,377
Net interest income from external sources	330	1,918	-	-	2,248
Net interest income Intersegmental	(277)	(2,857)	-	-	(3,134)
Total net Interest income	53	(939)	-	-	(886)
Non-interest financing income From external sources	393	2,135	147	454	3,129
Non-interest financing income Intersegmental	133	(1,514)	-	-	(1,381)
Total Non-interest financing income	526	621	147	454	1,748
Total income	**579**	**(318)**	**147**	**454**	**862**
Credit loss expenses	-	7	-	2	9
Operating and other expenses	149	315	29	34	527
Profit before taxes	**430**	**(640)**	**118**	**418**	**326**
Provision for taxes on profit	147	(187)	39	137	136
Profit after taxes	**283**	**(453)**	**79**	**281**	**190**
Bank's share in operating income of associates	-	-	(11)	-	(11)
Net Profit from ordinary operations Attributed to the non-controlling interests	-	23	-	-	23
Net Profit Attributed to the bank's shareholders	**283**	**(430)**	**68**	**281**	**202**
Balance of average Assets	20,056	99,654	3,264	1,816	124,790
Of which - Investment in associates	-	-	478	-	478
Balance of average Liabilities	11,072	37,724	-	835	49,631
Balance of average Risk-assets(1)	7,857	8,637	3,075	1,154	20,723
Balance of Risk-assets at the period end (1)	7,522	8,729	3,070	1,178	20,499
Balance of average assets under management(2)	-	-	-	518	518
Components of net interest income and non-interest income:					
Net exchange rate differences	130	45	-	-	175
Net CPI linkage differences	85	480	-	-	565
Net interest exposure	(252)	(476)	-	-	(728)
Net share exposure	-	-	-	-	-
Total net interest income and non-interest income, on an accrual basis	**(37)**	**49**	**-**	**-**	**12**
Profits or losses on sale or on impairment in value	-	(159)	-	-	(159)
Change in the difference between fair value and the accrual basis	-	(208)	-	-	(208)
Other non-interest income	616	-	-	-	616
Total net interest income and non-interest income	**579**	**(318)**	**147**	**454**	**862**

Footnotes:

Average balances were computed on the basis of balances for the beginning of the quarter or beginning of the month.

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Financial Management Segment – domestic operations, consolidated (continued)

	For the year ended December 31, 2022				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income From external sources	54	1,196	-	-	1,250
Interest expenses To external sources	(1)	690	-	(3)	686
Net interest income from external sources	55	506	-	3	564
Net interest income Intersegmental	(41)	(4)93	-	-	52
Total net Interest income	14	599	-	3	616
Non-interest financing income From external sources	282	4,300	34	471	5,087
Non-interest financing income Intersegmental	137	(4,346)	-	-	(4,209)
Total Non-interest financing income	419	(46)	34	471	878
Total income	**433**	**553**	**34**	**474**	**1,494**
Credit loss expenses	-	-	-	-	-
Operating and other expenses	146	288	31	-	465
Profit before taxes	**287**	**265**	**3**	**474**	**1,029**
Provision for taxes on profit	98	110	(6)	185	387
Profit after taxes	**189**	**155**	**9**	**289**	**642**
Bank's share in operating income of associates	-	-	27	-	27
Net Profit from ordinary operations Attributed to the non-controlling interests	-	33	-	-	33
Net Profit Attributed to the bank's shareholders	**189**	**188**	**36**	**289**	**702**
Balance of average Assets	11,270	101,448	3,427	1,611	117,756
Of which - Investment in associates	-	-	466	-	466
Balance of average Liabilities	9,008	29,911	-	850	39,769
Balance of average Risk-assets(1)	5,945	8,740	2,845	749	18,279
Balance of Risk-assets at the period end (1)	6,021	8,126	2,911	892	17,950
Balance of average assets under management(2)	-	-	-	461	461
Components of net interest income and non-interest income:					
Net exchange rate differences	132	25	-	-	157
Net CPI linkage differences	39	431	-	-	470
Net interest exposure	165	287	-	-	452
Net share exposure	19	-	-	-	19
Total net interest income and non-interest income, on an accrual basis	**355**	**743**	**-**	**-**	**1,098**
Profits or losses on sale or on impairment in value	-	(40)	-	-	(40)
Change in the difference between fair value and the accrual basis	-	(149)	-	-	(149)
Other non-interest income	78	(1)	-	-	77
Total net interest income and non-interest income	**433**	**553**	**34**	**474**	**1,494**

Footnotes:

Average balances were computed on the basis of balances for the beginning of the quarter or beginning of the month.

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

H. Information on geographical areas

	Income[(1)]			Net Income attributed to the bank's shareholders			Assets	
	For the year end December 31						As at December 31	
	2023	2022	2021	2023	2022	2021	2023	2022
	in NIS millions							
Israel	14,698	11,596	9,412	4,004	3,147	2,512	351,994	333,182
North America	1,375	1,347	1,079	185	344	259	43,684	43,559
Europe	1	1	-	3	4	2	46	13
Total Overseas	**1,376**	**1,348**	**1,079**	**188**	**348**	**261**	**43,730**	**43,572**
Total Consolidated	**16,074**	**12,944**	**10,491**	**4,192**	**3,495**	**2,773**	**395,724**	**376,754**

Footnote:

(1) Income - Net interest income, before credit loss expenses and non-interest income.

30. Managerial Operating Segments

A. General

1. Under the new directives, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), according to the accounting principles accepted by U.S. banks in the matter of operating segments – (ASC 280).
2. The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other. These segments agree with the managerial structure.
   - **segments under responsibility of the Banking Division** (at the Bank; under the responsibility of the Retail Division of MDB relating to retail banking, under the responsibility the Corporate-Commercial Division of MDB relating to commercial banking):

     Retail banking – Household activity (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations for their private customers) and activity of small businesses (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations for business customers, individuals and corporations, the activity of which is typical of small businesses).

     Middle Market banking – Includes banking services provided by the Bank and MDB to business customers (individuals and corporations) having a medium scope of operations, and who do not belong to the corporate banking segment (with effect as from January 1, 2020, responsibility for Middle Market banking was transferred from the Banking Division to the Corporate Division).
   - **segment under the responsibility of the Corporate Division** (at the Bank; under the responsibility of the Commercial Banking Division of MDB):

     Corporate banking segment - Includes banking services provided by the Bank and MDB to large corporations. The segment includes also the activity of the Bank and MDB in the construction and real estate field.
   - **Segment under the responsibility of the Financial Markets Division** (at the Bank; under the responsibility of the Financial Division of MDB):

     Financial activity segment – Includes financial activity of the Bank and of MDB, which is not attributed to customers, such as operations in the securities portfolios of the banks.
   - **Segments including the activities of the principal subsidiaries in the Group:**

     Discount Capital – Operations in the field of investment (in companies, in private equity funds, in venture capital funds and in mezzanine operations), in the field of investment banking, in the initiation and assistance of public and private placements and in providing underwriting and distribution services (by means of a subsidiary company).

     Discount Bancorp – The international activity of the Discount Group, characterized as corporate- middle market activity and private banking through IDB Bank.

30. Managerial Operating Segments (continued)

ICC – Issue and clearing activity of credit cards of different kinds, for use in Israel and abroad.

- **Other segment** – Different activities, which are not included in any of the above described segments, the scope of which is not material enough to be defined as an operating segment.

3. In allocating the expenses to the administrative segments, use is made of the allocation model used for the regulatory segments, apart from customer attribution to the appropriate administrative segment, according to criteria used for dividing the activity between the administrative segments.

B. Information regarding managerial operating segments

	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital(1)	Discount Bancorp(1)	Israel Credit Cards(1)	other	Adjustments	Total
	In NIS millions									
	For the year ended December 31, 2023									
Net interest income	6,660	1,006	1,848	(738)	33	1,273	822	31	1	10,936
Non-interest income	1,199	142	466	1,118	169	104	2,062	75	(197)	5,138
Total income	**7,859**	**1,148**	**2,314**	**380**	**202**	**1,377**	**2,884**	**106**	**(196)**	**16,074**
Credit loss expenses (expenses release)	495	177	511	1	2	31	285	-	-	1,502
Operating and other expenses	3,498	331	736	346	51	1,056	2,002	142	(196)	7,966
Income(loss) before taxes	3,866	640	1,067	33	149	290	597	(36)	-	6,606
Provision for taxes on income	1,305	217	367	24	43	100	245	15	-	2,316
Income (loss) after taxes	2,561	423	700	9	106	190	352	(51)	-	4,290
Bank's share in profits of Associates, net of tax effect	1	-	-	7	(17)	-	1	-	(3)	(11)
Net income (loss) before attributed to the non-controlling interests	2,562	423	700	16	89	190	353	(51)	(3)	4,279
Net income (loss) attributed to the non-controlling interests	-	-	-	-	-	-	(127)	36	4	(87)
Net income (loss) attributed to the Bank's shareholders	**2,562**	**423**	**700**	**16**	**89**	**190**	**226**	**(15)**	**1**	**4,192**
Balance of Assets	114,755	32,233	79,927	128,152	2,687	44,320	19,379	14,810	(40,535)	395,728
Balance of credit to the public	113,491	32,723	73,908	-	240	29,848	18,190	-	(5,459)	262,941
Balance of deposits from the public	164,687	29,263	68,915	12,344	-	35,174	17	772	(13,575)	297,597
	For the year ended December 31, 2022									
Net interest income	4,089	809	1,287	651	16	1,151	680	5	5	8,693
Non-interest income	1,192	152	463	256	138	199	1,753	317	(219)	4,251
Total income	**5,281**	**961**	**1,750**	**907**	**154**	**1,350**	**2,433**	**322**	**(214)**	**12,944**
Credit expenses (loss expenses)	183	90	44	-	1	(8)	97	-	-	407
Operating and other expenses	3,197	370	623	329	54	837	1,895	126	(214)	7,217
Income before taxes	1,901	501	1,083	578	99	521	441	196	-	5,320
Provision for taxes on income	601	168	361	238	36	174	166	62	-	1,806
Income) after taxes	1,300	333	722	340	63	347	275	134	-	3,514
Bank's share in profits of Associates, net of tax effect	1	-	-	5	22	-	2	-	(3)	27
Net income (loss) before attributed to the non-controlling interests	1,301	333	722	345	85	347	277	134	(3)	3,541
Net income (loss) attributed to the non-controlling interests	-	-	-	-	-	-	(87)	38	3	(46)
Net income attributed to the Bank's shareholders	**1,301**	**333**	**722**	**345**	**85**	**347**	**190**	**172**	**-**	**3,495**
Balance of Assets	110,962	31,144	68,081	125,777	2,572	44,031	18,546	13,671	(38,030)	376,754
Balance of credit to the public	109,647	31,278	62,953	-	94	29,109	17,421	-	(6,214)	244,288
Balance of deposits from the public	163,533	29,652	64,238	11,562	-	35,436	11	534	(12,673)	292,293

footnotes:
(1) The contribution to the Bank's business results.

30. Managerial Operating Segments (continued)

B. Information regarding managerial operating segments (continued)

	For the year ended December 31, 2021									
	Retail banking[2]	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	In NIS millions									
Net interest income	2,538	659	966	948	20	848	548	-	2	6,529
Non-interest income	1,149	142	381	483	267	231	1,437	59	(187)	3,962
Total income	**3,687**	**801**	**1,347**	**1,431**	**287**	**1,079**	**1,985**	**59**	**(185)**	**10,491**
Credit (expenses) loss expenses	183	90	44	-	1	(8)	97	-	-	407
Operating and other expenses	3,197	370	623	329	54	837	1,895	126	(214)	7,217
Income before taxes	1,901	501	1,083	578	99	521	441	196	-	2,867
Provision for taxes on income	601	168	361	238	36	174	166	62	-	1,806
Income after taxes	1,300	333	722	340	63	347	275	134	-	1,061
Bank's share in profits of Associates, net of tax effect	1	-	-	5	22	-	2	-	(3)	27
Net income (loss) before attributed to the non-controlling interests	1,301	333	722	345	85	347	277	134	(3)	1,088
Net income(loss) attributed to the non-controlling interests	-	-	-	-	-	-	(87)	38	3	(46)
Net income attributed to the Bank's shareholders	**1,301**	**333**	**722**	**345**	**85**	**347**	**190**	**172**	**-**	**1,042**
Balance of Assets	110,962	31,144	68,081	125,777	2,572	44,031	18,546	13,671	(38,030)	376,754
Balance of credit to the public	109,647	31,278	62,953	-	94	29,109	17,421	-	(6,214)	244,288
Balance of deposits from the public	163,533	29,652	64,238	11,562	-	35,436	11	534	(12,673)	292,293

footnote:

(1) The contribution to the Bank's business results.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses

General. Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, securities borrowed or purchased under agreements to resell and assets for the Maof market activity.

A. Debts, held-to-maturity and available-for-sale bonds and off-balance sheet credit instruments

1. Change in the balance of the allowance for credit losses – consolidated

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds[3]	Total
	In NIS millions					
	2023					
Balance of allowance for credit losses, as at December 31, 2022 (audited)	2,525	285	821	3,631	31	3,662
Adjustment to the opening balance due to the effect of the initial application[1]	16	-	34	50	-	50
Credit loss expenses	1,010	75	408	1,493	9	1,502
Accounting write-offs	(402)	(3)	(527)	(932)	(1)	(933)
Collection of debts written-off in previous years	226	-	267	493	-	493
Net accounting write-offs	(176)	(3)	(260)	(439)	(1)	(440)
Adjustments from translation of financial statements	8	1	(1)	8	-	8
Balance of allowance for credit losses, as at December 31, 2023	**3,383**	**358**	**1,002**	**4,743**	**39**	**4,782**
Of which: For off-balance sheet credit instruments	418	20	91	529	-	529
	2022					
Balance of allowance for credit losses, as at December 31, 2021 (audited)	2,258	258	773	3,289	22	3,311
Adjustment to the opening balance due to the effect of the initial application[2]	183	(32)	-	151	9	160
Credit loss expenses	182	63	162	407	-	407
Accounting write-offs	(401)	(5)	(372)	(778)	-	(778)
Collection of debts written-off in previous years	270	-	257	527	-	527
Net accounting write-offs	(131)	(5)	(115)	(251)	-	(251)
Adjustments from translation of financial statements	33	1	1	35	-	35
Balance of allowance for credit losses, as at December 31, 2022	**2,525**	**285**	**821**	**3,631**	**31**	**3,662**
Of which: For off-balance sheet credit instruments	313	19	90	422	2	424
	2021					
Balance of allowance for credit losses, as at December 31, 2020 (audited)	2,817	258	984	4,059	15	4,074
Credit loss expenses (expenses release)	(534)	6	(172)	(700)	7	(693)
Accounting write-offs	(336)	(8)	(283)	(627)	-	(627)
Collection of debts written-off in previous years	324	2	245	571	-	571
Net accounting write-offs	(12)	(6)	(38)	(56)	-	(56)
Adjustments from translation of financial statements	(13)	-	(1)	(14)	-	(14)
Balance of allowance for credit losses, as at December 31, 2021	**2,258**	**258**	**773**	**3,289**	**22**	**3,311**
Of which: For off-balance sheet credit instruments	180	-	69	249	-	249

Footnote:
(1) ICC initially implemented the US GAAP with respect to allowances for current expected credit losses (CECL) as from January 1, 2023, see Note 1 C (5) (1).
(2) The effect of the initial implementation of US GAAP regarding allowances for current expected credit losses (CECL) is presented in Note 1 C (5) to the financial statements as of December 31, 2022.
(3) In the year 2021, the column includes only governments and banks.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Debts, held-to-maturity and available-for-sale bonds and off-balance sheet credit instruments (continued)

2. Change in the balance of the allowance for credit losses – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds[2]	Total
	In NIS millions					
	2023					
Balance of allowance for credit losses, as at December 31, 2022	1,692	200	322	2,214	30	2,244
Credit loss expenses	710	74	77	861	8	869
Accounting write-offs	(222)	(3)	(151)	(376)	(1)	(377)
Collection of debts written-off in previous years	131	-	113	244	-	244
Net accounting write-offs	(91)	(3)	(38)	(132)	(1)	(133)
Balance of allowance for credit losses, as at December 31, 2023	**2,311**	**271**	**361**	**2,943**	**37**	**2,980**
Of which: For off-balance sheet credit instruments	348	13	59	420	-	420
	2022					
Balance of allowance for credit losses, as at December 31, 2021	1,500	219	290	2,009	22	2,031
Adjustment to the opening balance due to the effect of the initial application[1]	172	(56)	(3)	113	8	121
Credit loss expenses	76	42	43	161	-	161
Accounting write-offs	(232)	(5)	(130)	(367)	-	(367)
Collection of debts written-off in previous years	176	-	122	298	-	298
Net accounting write-offs	(56)	(5)	(8)	(69)	-	(69)
Balance of allowance for credit losses, as at December 31, 2022	**1,692**	**200**	**322**	**2,214**	**30**	**2,244**
Of which: For off-balance sheet credit instruments	273	13	48	334	2	336
	2021					
Balance of allowance for credit losses, as at December 31, 2020	1,921	219	429	2,569	15	2,584
Credit loss expenses (expenses release)	(461)	6	(142)	(597)	7	(590)
Accounting write-offs	(182)	(8)	(117)	(307)	-	(307)
Collection of debts written-off in previous years	222	2	120	344	-	344
Net accounting write-offs	40	(6)	3	37	-	37
Balance of allowance for credit losses, as at December 31, 2021	**1,500**	**219**	**290**	**2,009**	**22**	**2,031**
Of which: For off-balance sheet credit instruments	160	-	25	185	-	185

Footnotes:
(1) Effect of initial implementation of US GAAP regarding allowance for current expected credit losses (CECL). See also Note 1 C (5) (1) to the financial statements as of December 31, 2022.
(2) In the year 2021, the column includes only governments and banks.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public

1. Credit quality and arrears - consolidated

	December 31, 2023					
		Problematic[1]			Accruing debts – additional information	
	Performing	Accruing	Non-accruing	Total	In Arrears of 90 Days or More[2]	In Arrears of 30 to 89 Days[3]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	26,214	476	775	27,465	12	88
Construction and Real Estate - Real Estate Activity	14,777	81	221	15,079	2	10
Financial Services	17,662	-	110	17,772	-	-
Commercial - Other	64,375	1,776	615	66,766	59	94
Total Commercial	**123,028**	**2,333**	**1,721**	**127,082**	**73**	**192**
Private Individuals - Housing Loans	68,705	103	259	69,067	-	391
Private Individuals - Other Loans	32,173	416	218	32,807	43	139
Total Public - Activity in Israel	**223,906**	**2,852**	**2,198**	**228,956**	**116**	**722**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	11,509	1,748	54	13,311	-	-
Commercial - Other	16,872	2,025	132	19,029	3	37
Total Commercial	**28,381**	**3,773**	**186**	**32,340**	**3**	**37**
Private Individuals	1,564	81	-	1,645	-	87
Total Public - Activity Abroad	**29,945**	**3,854**	**186**	**33,985**	**3**	**124**
Total public	**253,851**	**6,706**	**2,384**	**262,941**	**119**	**846**

For footnotes see next page.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

1. Credit quality and arrears - consolidated (continued)

	December 31, 2022					
		Problematic[1]			Unimpaired debts – additional information	
	Performing	Accruing	Non-accruing	Total	In Arrears of 90 Days or More[2]	In Arrears of 30 to 89 Days[3]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	21,741	872	240	22,853	10	25
Construction and Real Estate - Real Estate Activity	13,731	100	218	14,049	2	15
Financial Services	14,139	4	1	14,144	-	5
Commercial - Other	59,761	1,397	622	61,780	56	227
Total Commercial	**109,372**	**2,373**	**1,081**	**112,826**	**68**	**272**
Private Individuals - Housing Loans	64,578	84	229	64,891	-	309
Private Individuals - Other Loans	32,388	397	81	32,866	45	151
Total Public - Activity in Israel	**206,338**	**2,854**	**1,391**	**210,583**	**113**	**732**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	11,446	941	26	12,413	-	-
Commercial - Other	18,172	1,348	103	19,623	2	7
Total Commercial	**29,618**	**2,289**	**129**	**32,036**	**2**	**7**
Private Individuals	1,629	40	-	1,669	-	-
Total Public - Activity Abroad	**31,247**	**2,329**	**129**	**33,705**	**2**	**7**
Total public	**237,585**	**5,183**	**1,520**	**244,288**	**115**	**739**

Footnotes:

(1) Substandard or special mention non-accruing credit to the public.

(2) Classified as problematic debts accruing interest income.

(3) Accruing interest income. Debts in arrears for 30 to 89 days amounting to NIS 353 million, were classified as problematic debts (December 31, 2022 - NIS 229 million).

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

2. Credit quality according to years of granting the credit

	December 31, 2023								
	Recorded amount of fixed-time credit to the public								
	2023	2022	2021	2020	2019	Previous	Recorded amount of renewable loans	Recorded amount of renewable loans converted into fixed-time loans	Total
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Total construction and Real Estate	**18,384**	**7,684**	**3,968**	**1,552**	**1,169**	**1,438**	**8,349**	**-**	**42,544**
Credit performance rating	18,327	7,541	3,442	1,415	1,141	1,346	7,679	-	40,891
Non problematic credit having no credit performance rating	20	14	12	8	7	6	33	-	100
Accruing problematic credit	26	50	14	15	5	38	409	-	557
Non-accruing credit	11	79	500	114	16	48	228	-	996
Total commercial - Other	**24,496**	**11,258**	**7,708**	**5,062**	**2,414**	**7,133**	**26,467**	**-**	**84,538**
Credit performance rating	23,581	10,608	7,091	4,831	2,286	6,886	25,643	-	80,926
Non problematic credit having no credit performance rating	563	194	115	80	30	20	109	-	1,111
Accruing problematic credit	212	226	467	90	66	121	594	-	1,776
Non-accruing credit	140	230	35	61	32	106	121	-	725
Total private Individuals - Housing Loans	**8,819**	**16,313**	**15,070**	**8,001**	**5,366**	**15,498**	**-**	**-**	**69,067**
LTV up to 60%	5,290	8,431	9,167	4,996	3,484	10,526	-	-	41,894
LTV over 60% up to 75%	3,515	7,852	5,833	2,924	1,851	4,504	-	-	26,479
LTV over 75%	14	30	70	81	31	468	-	-	694
Credit not in arrears and in credit performance rating	8,711	16,153	14,886	7,910	5,277	15,136	-	-	68,073
Credit not in arrears and not in credit performance rating	68	69	76	31	34	66	-	-	344
In arrears of 30 to 89 days	36	70	76	35	37	137	-	-	391
Non-accruing credit	4	21	32	25	18	159	-	-	259
Total private Individuals - Other Loans	**14,957**	**5,277**	**2,419**	**785**	**492**	**237**	**8,640**	**-**	**32,807**
Credit not in arrears and in credit performance rating	14,145	4,724	2,156	696	434	186	7,814	-	30,155
Credit not in arrears and not in credit performance rating	682	471	226	77	50	36	710	-	2,252
In arrears of 30 to 89 days	41	27	14	5	2	3	47	-	139
In arrears of 90 days or over	9	6	4	2	2	-	20	-	43
Non-accruing credit	80	49	19	5	4	12	49	-	218
Total Credit to the public - Activity in Israel	**66,656**	**40,532**	**29,165**	**15,400**	**9,441**	**24,306**	**43,456**	**-**	**228,956**
Total Credit to the public - Activity Abroad	**7,509**	**3,982**	**4,366**	**1,681**	**1,819**	**2,245**	**11,857**	**526**	**33,985**
Non-problematic credit	7,311	3,426	4,080	1,346	1,115	2,075	10,350	242	29,945
Accruing problematic credit	198	552	262	323	636	144	1,455	284	3,854
Non-accruing credit	-	4	24	12	68	26	52	-	186
Total Credit to the public	**74,165**	**44,514**	**33,531**	**17,081**	**11,260**	**26,551**	**55,313**	**526**	**262,941**

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

2. Credit quality according to years of granting the credit

	December 31, 2022[(1)(2)]								
	Recorded amount of fixed-time credit to the public								
	2022	2021	2020	2019	2018	Previous	Recorded amount of renewable loans	Recorded amount of renewable loans converted into fixed-time loans	Total
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Total construction and Real Estate	**15,667**	**8,917**	**2,547**	**1,588**	**690**	**1,173**	**6,320**	**-**	**36,902**
Credit performance rating	15,510	8,245	2,412	1,523	664	1,046	5,899	-	35,299
Non problematic credit having no credit performance rating	37	33	21	15	8	16	43	-	173
Accruing problematic credit	-	585	86	39	11	91	160	-	972
Non-accruing credit	120	54	28	11	7	20	218	-	458
Total commercial - Other	**20,382**	**10,069**	**6,919**	**3,607**	**2,112**	**10,183**	**24,726**	**-**	**77,998**
Credit performance rating	19,635	9,439	6,523	3,422	1,912	9,907	23,505	-	74,343
Non problematic credit having no credit performance rating	385	183	150	69	40	102	714	-	1,643
Accruing problematic credit	156	432	149	75	145	78	366	-	1,401
Non-accruing credit	206	15	97	41	15	96	141	-	611
Total private Individuals - Housing Loans	**16,519**	**16,275**	**8,576**	**5,819**	**4,424**	**13,277**	**1**	**-**	**64,891**
LTV up to 60%	8,743	10,305	5,532	3,894	3,012	7,974	1	-	39,461
LTV over 60% up to 75%	7,748	5,904	2,964	1,892	1,395	4,833	-	-	24,736
LTV over 75%	28	66	80	33	17	470	-	-	694
Credit not in arrears and in credit performance rating	16,409	16,167	8,503	5,752	4,338	12,817	1	-	63,987
Credit not in arrears and not in credit performance rating	60	55	27	21	28	175	-	-	366
In arrears of 30 to 89 days	46	45	31	30	41	116	-	-	309
Non-accruing credit	4	8	15	16	17	169	-	-	229
Total private Individuals - Other Loans	**6,393**	**3,376**	**1,385**	**952**	**396**	**266**	**6,206**	**-**	**18,974**
Credit not in arrears and in credit performance rating	5,883	3,027	1,222	834	345	214	5,657	-	17,182
Credit not in arrears and not in credit performance rating	480	316	146	104	47	41	476	-	1,610
In arrears of 30 to 89 days	19	17	8	7	2	2	43	-	98
In arrears of 90 days or over	6	5	2	2	-	-	30	-	45
Non-accruing credit	5	11	7	5	2	9	-	-	39
Total Credit to the public - Activity in Israel	**58,961**	**38,637**	**19,427**	**11,966**	**7,622**	**24,899**	**37,253**	**-**	**198,765**
Total Credit to the public - Activity Abroad	**5,955**	**5,635**	**2,443**	**2,304**	**862**	**2,419**	**13,559**	**528**	**33,705**
Non-problematic credit	5,745	5,340	2,300	1,515	755	2,184	12,972	436	31,247
Accruing problematic credit	183	287	118	757	107	235	550	92	2,329
Non-accruing credit	27	8	25	32	-	-	37	-	129
Total Credit to the public	**64,916**	**44,272**	**21,870**	**14,270**	**8,484**	**27,318**	**50,812**	**528**	**232,470**

Footnotes:

(1) The data does not include the subsidiary ICC, which initially applied the new rules as from January 1, 2023.

(2) Reclassified following improvement of data.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

3. Additional information regarding non-accruing debts

A. Credit to the public – non-accruing debts - consolidated

	Balance[1] of non-accruing debts for which allowance exists	Balance of allowance	Balance[1] of non-accruing debts for which no allowance exists	Total balance[1] of non-accruing debts[3][4]	Balance of contractual principal sum of non-accruing debts	Recorded interest income[2]
	In NIS millions					
	December 31, 2023					
Lending Activity in Israel						
Construction and Real Estate	906	155	90	996	1,600	26
Commercial - Other	620	204	105	725	2,246	7
Total Commercial	**1,526**	**359**	**195**	**1,721**	**3,846**	**33**
Private Individuals - Housing Loans	259	13	–	259	294	1
Private Individuals - Other Loans	217	122	1	218	260	–
Total Credit to the Public - Activity in Israel	**2,002**	**494**	**196**	**2,198**	**4,400**	**34**
Lending Activity Abroad						
Total Credit to the Public - Activity Abroad	**112**	**11**	**74**	**186**	**379**	**2**
Total	**2,114**	**505**	**270**	**2,384**	**4,779**	**36**
Of which:						
Measured specifically according to present valued of cash flows	613	206	44	657	791	
Measured specifically according to fair value of collateral	971	153	224	1,195	3,346	
Measured on a collective basis	530	146	2	532	642	
	December 31, 2022					
Lending Activity in Israel						
Construction and Real Estate	394	40	64	458	1,339	10
Commercial - Other	514	164	109	623	2,263	10
Total Commercial	**908**	**204**	**173**	**1,081**	**3,602**	**20**
Private Individuals - Housing Loans	229	13	–	229	273	1
Private Individuals - Other Loans	81	30	–	81	121	–
Total Credit to the Public - Activity in Israel	**1,218**	**247**	**173**	**1,391**	**3,996**	**21**
Lending Activity Abroad						
Total Credit to the Public - Activity Abroad	**33**	**1**	**96**	**129**	**313**	**3**
Total	**1,251**	**248**	**269**	**1,520**	**4,309**	**24**
Of which:						
Measured specifically according to present valued of cash flows	591	140	82	673	871	
Measured specifically according to fair value of collateral	304	57	187	491	2,965	
Measured on a collective basis	356	51	–	356	473	

Footnotes:

(1) Recorded amount.

(2) The amount of interest income recorded in the reported period for the average balance of non-accruing debts, in the period of time in which the debts had been classified as non-accruing.

(3) Had the non-accruing debts accrue interest according to the original terms, interest income of NIS 124 million would have been recorded for the year 2023 (December 31, 2022 - NIS 60 million).

(4) Additional information: the total average recorded amount of the debt of non-accruing debts in the year ended December 31, 2023, amounts to NIS 2,717 million (December 31, 2022 - NIS 2,020 million).

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

3. Additional information regarding non-accruing debts

B. Debts which undergone troubled debt restructurings - consolidated

	December 31, 2023				
	Recorded amount				
	Not accruing interest income	Accruing debts(1),in arrears for 90 days or more	Accruing debts(1), in Arrears for 30 to 89 Days	Accruing debts(1) not in arrears	Total(2)
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate	135	-	-	15	150
Commercial - Other	270	-	1	86	357
Total Commercial	**405**	**-**	**1**	**101**	**507**
Private Individuals - Housing Loans	5	-	1	11	17
Private Individuals - Other Loans	67	-	2	49	118
Total Credit to the Public - Activity in Israel	**477**	**-**	**4**	**161**	**642**
Lending Activity Abroad					
Total Credit to the Public - Activity Abroad	**121**	**-**	**-**	**225**	**346**
Total	**598**	**-**	**4**	**386**	**988**

Footnotes:
(1) Accruing interest income.
(2) As at December 31, 2023, restructured troubled debts amounting to NIS 787 million, were classified as problematic debts

Commitment to grant additional credit to borrowers, for which a troubled debt restructurings was performed, under which the credit terms had been changed, amounts at December 31, 2023, to NIS 5 million (December 31, 2022 – NIS 21 million).

	December 31, 2022				
	Recorded amount				
	Not accruing interest income	Accruing debts(1),in arrears for 90 days or more	Accruing debts(1), in Arrears for 30 to 89 Days	Accruing debts(1) not in arrears	Total(2)
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate	161	-	1	27	189
Commercial - Other	198	-	2	133	333
Total Commercial	**359**	**-**	**3**	**160**	**522**
Private Individuals - Housing Loans	4	-	-	11	15
Private Individuals - Other Loans	42	-	2	92	136
Total Credit to the Public - Activity in Israel	**405**	**-**	**5**	**263**	**673**
Lending Activity Abroad					
Total Credit to the Public - Activity Abroad	**91**	**-**	**-**	**195**	**286**
Total	**496**	**-**	**5**	**458**	**959**

Footnotes:
(1) Accruing interest income.
(2) As at December 31, 2022, restructured troubled debts amounting to NIS 863 million, were classified as problematic debts

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

3. Additional information regarding non-accruing debts (continued)

B. Debts which undergone troubled debt restructurings – consolidated (continued)

	2023			2022			2021		
	Debt restructuring performed								
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Construction and Real Estate	258	131	131	182	171	171	210	54	53
Commercial - Other	882	183	182	753	106	102	883	278	276
Total Commercial	**1,140**	**314**	**313**	**935**	**277**	**273**	**1,093**	**332**	**329**
Private Individuals - Housing Loans	24	2	2	21	3	3	-	-	-
Private Individuals - Other Loans	4,914	90	88	5,219	94	93	5,054	134	131
Total Credit to the Public - Activity in Israel	**6,078**	**406**	**403**	**6,175**	**374**	**369**	**6,147**	**466**	**460**
Lending Activity Abroad									
Total Credit to the Public - Activity Abroad	**9**	**144**	**144**	**6**	**90**	**90**	**7**	**136**	**136**
Total	**6,087**	**550**	**547**	**6,181**	**464**	**459**	**6,154**	**602**	**596**

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

3. Additional information regarding non-accruing debts (continued)

B. Debts which undergone troubled debt restructurings - consolidated (continued)

	2023		2022		2021	
	Failure of restructured debts[(1)]					
	Number of contracts	Recorded amount	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate	112	18	85	19	79	8
Commercial - Other	372	28	247	15	323	23
Total Commercial	**484**	**46**	**332**	**34**	**402**	**31**
Private Individuals - Housing Loans	2	-	3	-	-	-
Private Individuals - Other	1,735	15	2,328	15	2,237	15
Total Public - Activity in Israel	**2,221**	**61**	**2,663**	**49**	**2,639**	**46**
Lending Activity Abroad						
Total Public - Activity Abroad	**2**	**-**	**1**	**-**	**1**	**7**
Total	**2,223**	**61**	**2,664**	**49**	**2,640**	**53**

Footnote:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of 12 months prior to their having become debts in arrears.

4. Additional information regarding non-accruing credit in arrears

	In arrears for up to 89 days	In arrears of 90 to 180 days	In arrears for over 180 days to one year	In arrears for over one year to three years	In arrears of over three to five years	In arrears of over five to seven years	In arrears of over seven years	Total non-accruing debts in arrears	Non-accruing debts not in arrears	Total non-accruing
	December 31, 2023									
	In NIS millions									
Commercial	137	55	250	106	39	12	58	657	1,250	1,907
Private Individuals - Housing Loans	1	126	68	33	8	8	14	258	1	259
Private Individuals - Other Loans	3	59	-	-	-	-	-	62	156	218
Total	**141**	**240**	**318**	**139**	**47**	**20**	**72**	**977**	**1,407**	**2,384**
	December 31, 2022									
Commercial	93	78	24	116	32	48	14	405	805	1,210
Private Individuals - Housing Loans	-	96	63	32	16	7	13	227	2	229
Private Individuals - Other Loans	3	39	-	-	-	-	-	42	39	81
Total	**96**	**213**	**87**	**148**	**48**	**55**	**27**	**674**	**846**	**1,520**

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

5. Additional disclosure on the quality of credit

(A) Risk characteristics according to credit segments

(1) Commercial credit

- The "Iron Swords" War is expected to have a significant impact on economic activity and on the economic environment of businesses in Israel. Many businesses along the northern border and in the Western Negev that are not essential are not operating due to the state of war and are suffering cumulative losses. The business assistance programs that began to be formed at the beginning of November 2023 provide a partial solution to small and middle market businesses only;
- A decline is evident in private consumption of the full range of products and services, excluding essential products;
- The interest rate that had risen on the background of the high inflationary environment, in Israel and the world over, reduces accessibility of households and the business sector to sources of finance, leading, even prior to the outbreak of the War to an adverse effect on economic performance and to a slowdown in growth;
- The condition of the economy may have an impact on the repayment ability of borrowers in all lines of business, and in particular, in the center of risk is found the real estate sector with its different activities, including construction projects, a field the activity thereof started to slow down even prior to the outbreak of the War;
- Implications are expected on the level of foreign investments, in a way that may affect also the ability of recovery of the hi-tech sector;
- Geopolitical tension, both in Europe and in US-China relations as well as in the Red Sea arena, might lead to damage in scope of production and in global trading and to the continuation of the rise in prices of finished goods;

The said macro-economic and geo-political events increase the level of risk in the short-medium term.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan;
- High exposure to variable interest may increase the risk of repayment ability of borrowers, in view of the rising cost of interest in the economy. The Bank's underwriting policy coupled with regulation hedge against such risk.

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors;
- The impact of the state of the fighting on the activity of many economic sectors and the putting of a large number of employees on unpaid leave, may affect the repayment ability regarding credit granted to private individuals. The reliefs approved by the government mitigate this harm in the short term;
- The deterioration in the security situation and its impact on economic activity in Israel, may lead to recession, the force of which depends also on the global economic situation;
- The growth in competition in recent years, whether within the banking industry or against off-banking institutions, may lead to erosion of the spreads, to a decline in the quality of borrowers, and as a result thereof to increased credit risk. The present credit policy examines thoroughly the risk involved in the underwriting of loans to existing and new customers using models and tools developed for sales points, thus reducing such risk.

(4) Implication of the rise in the prime interest rate on credit to private individuals (mortgage and other)

The volume of demand for mortgage loans has declined; the increase in amount of monthly repayments following the rise in interest rates adversely affects the repayment ability. There has been an increase in the number of borrowers seeking deferral of principal repayments, which stems in part from the reliefs approved within the framework of the "Iron Swords" war reliefs plan.

The rise in housing prices leads to higher leverage ratios and higher repayment rates, as well as to longer average periods to maturity in housing loans.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

5. Additional disclosure on the quality of credit (continued)

(B) Indication of credit quality

	December 31, 2023				December 31, 2022			
		Private Individuals				Private Individuals		
	Commercial	Housing Loans	Other Loans	Total	Commercial	Housing Loans	Other Loans	Total
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	95.0%	99.5%	98.0%	96.5%	96.0%	99.5%	98.5%	97.3%
Ratio of accruing credit to balance of credit to the public	3.8%	0.1%	1.4%	2.6%	3.2%	0.1%	1.3%	2.1%
Ratio of non-accruing credit to balance of credit to the public	1.2%	0.4%	0.6%	0.9%	0.8%	0.4%	0.2%	0.6%
Ratio of the balance of allowance to credit losses for credit to the public to the balance of credit to the public	1.9%	0.5%	2.7%	1.6%	1.5%	0.4%	2.1%	1.3%
Ratio of the balance of allowance to credit losses for credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	34.6%	93.4%	126.9%	43.7%	34.9%	85.0%	138.2%	44.7%

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs.

A central indication on the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank.

6. Additional information regarding housing loans

Balances for the year end, according to Loan-to-Value (LTV)(1) ratio, manner of repayment and type of interest

		Balance of housing loans			
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		December 31, 2023			
First degree pledge: financing ratio	Up to 60%	42,101	550	24,293	645
	Over 60%	26,314	175	15,405	435
Second degree pledge or without pledge		1,086	52	506	5,433
Total		**(2)69,501**	**777**	**40,204**	**6,513**
		December 31, 2022			
First degree pledge: financing ratio	Up to 60%	39,677	365	23,305	554
	Over 60%	24,076	144	14,263	370
Second degree pledge or without pledge		1,572	151	787	7,425
Total		**(2)65,325**	**660**	**38,355**	**8,349**

Footnotes:

(1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.

(2) The balance of housing loans not includes the balance of commercial debts in the amount of NIS 97 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 (December 31, 2022 - NIS 218 million).

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Sale, purchase and syndications of credit to the public during the year

1. Sale and purchase of credit (consolidated)

	Credit risk sold					Credit risk purchased		
	Credit sold this period	Off-balance sheet credit risk[1](1) sold this period	Of which: problematic credit	Total profit (loss) on credit sold	Balance at end of period of credit sold, which is serviced by the banking corporation	Credit purchased this period	Off-balance sheet credit risk[1](1) purchased this period	Of which: problematic credit
	In NIS millions							
	December 31,2023							
Total commercial	103	71	7	-	1,246	13,950	-	-
Private individuals – housing loans	-	-	-	-	758	-	-	-
Total credit to the public	**103**	**71**	**7**	**-**	**2,004**	**13,950**	**-**	**-**
Credit to governments	-	-	-	-	-	4,825	-	-
Total debts	**103**	**71**	**7**	**-**	**2,004**	**18,775**	**-**	**-**
	December 31,2022[(3)]							
Total commercial	[(2)]540	230	32	4	1,364	11,399	3	-
Private individuals – housing loans	953	-	-	14	863	-	-	-
Total credit to the public	**1,493**	**230**	**32**	**18**	**2,227**	**11,399**	**3**	**-**
Credit to governments	-	-	-	-	-	2,766	-	-
Total debts	**1,493**	**230**	**32**	**18**	**2,227**	**14,165**	**3**	**-**

Footnotes:
(1) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding for derivative instruments.
(2) Not including a receipt of NIS 4 million, that has been recorded as a reduction in credit loss expenses for the year 2022.
(3) Reclassified following improvement of data.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Sale, purchase and syndications of credit to the public during the year (continued)

2. Syndications and participation in loan syndications (consolidated)

	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others	
	Balance at end of period					
	Share of the banking corporation		Share of others		Share of the banking corporation	
	Credit	Off-balance sheet credit risk(1)	Credit	Off-balance sheet credit risk(1)	Credit	Off-balance sheet credit risk(1)
	In NIS millions					
	December 31,2023					
Total commercial	5,572	3,603	11,801	6,970	5,733	2,806
Total credit to the public	**5,572**	**3,603**	**11,801**	**6,970**	**5,733**	**2,806**
Credit to governments	207	-	58	-	-	-
Total debts	**5,779**	**3,603**	**11,859**	**6,970**	**5,733**	**2,806**
	December 31,2022(2)					
Total commercial	5,971	1,943	8,071	4,751	5,283	1,860
Total credit to the public	**5,971**	**1,943**	**8,071**	**4,751**	**5,283**	**1,860**
Credit to governments	306	-	113	-	-	-
Total debts	**6,277**	**1,943**	**8,184**	**4,751**	**5,283**	**1,860**

Footnote:
(1) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding for derivative instruments.
(2) Reclassified following improvement of data.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public (1) and off-balance-sheet credit risk(3), by size of credit to individual borrowers

1. Consolidated

				December 31					
				2023			2022		
				Number of borrowers(2)	Credit(1)	Off-balance Credit risk(1)(3)	Number of borrowers(2)	Credit(1)	Off-balance Credit risk(1)(3)
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	1,236,830	2,098	2,302	1,285,411	2,066	2,014
Over	10	Up to	20	471,085	2,332	4,993	494,592	2,550	5,045
Over	20	Up to	40	601,331	5,678	11,881	582,558	5,838	10,845
Over	40	Up to	80	361,829	9,364	11,257	330,857	9,193	9,615
Over	80	Up to	150	115,788	8,518	4,439	108,332	8,122	3,856
Over	150	Up to	300	57,303	9,037	2,896	55,456	8,866	2,659
Over	300	Up to	600	37,272	13,741	2,414	35,139	12,913	2,475
Over	600	Up to	1,200	44,738	34,513	4,485	44,150	33,308	5,241
Over	1,200	Up to	2,000	18,174	23,304	3,872	17,834	21,990	4,658
Over	2,000	Up to	(4)4,000	6,066	13,025	3,124	5,952	12,427	3,363
Over	4,000	Up to	(4)8,000	1,736	7,802	2,213	1,752	7,825	2,296
Over	8,000	Up to	(4)20,000	1,486	15,324	3,937	1,416	14,390	3,675
Over	20,000	Up to	(4)40,000	790	18,626	4,191	808	18,794	4,364
Over	40,000	Up to	(4)200,000	*949	*58,040	22,370	*894	*55,635	20,369
Over	200,000	Up to	(4)400,000	120	19,769	13,619	115	18,698	11,872
Over	400,000	Up to	(4)800,000	38	11,736	8,525	29	8,492	7,688
Over	800,000	Up to	(4)1,200,000	13	7,864	4,849	9	3,573	4,506
Over	1,200,000	Up to	(4)1,600,000	5	5,238	1,945	2	1,302	1,550
Over	1,600,000	Up to	(4)2,000,000	2	1,021	2,687	2	1,342	1,878
Over	2,000,000	Up to	(4)2,400,000	2	1,987	2,032	1	117	1,956
Over	2,400,000	Up to	(4)2,800,000	-	-	-	1	2,566	153
Over	2,800,000	Up to	(4)3,200,000	-	-	-	-	-	-
Over	(4)3,200,000			**1	**7,453	-	**1	**6,723	-
Total				**2,955,558**	**276,470**	**118,031**	**2,965,311**	**256,730**	**110,078**
Mortgage backed securities issued by:									
**GNMA				1	7,453	-	1	6,723	-
*FNMA				1	96	-	1	137	-
*FHLMC				1	80	-	1	102	-

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance sheet credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower (not including credit facilities under banks guarantees, not of the Group's, as of December 31, 2023 - 11,258 NIS million, as of December 31, 2022 - NIS 9,407 million).

(4) Consolidated - by combining specific balances.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public [1] and off-balance-sheet credit risk[3], by size of credit to individual borrowers (continued)

2. The Bank

				December 31					
				2023			2022		
				Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]	Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	327,072	270	696	293,407	276	668
Over	10	Up to	20	107,971	508	1,155	108,313	538	1,134
Over	20	Up to	40	124,925	1,244	2,470	122,332	1,323	2,298
Over	40	Up to	80	107,135	2,684	3,531	103,808	2,861	3,147
Over	80	Up to	150	67,513	4,371	3,048	67,730	4,664	2,772
Over	150	Up to	300	39,854	6,143	2,207	39,764	6,213	2,092
Over	300	Up to	600	26,644	9,756	1,913	26,270	9,536	1,996
Over	600	Up to	1,200	35,697	27,558	3,677	35,583	26,723	4,506
Over	1,200	Up to	2,000	14,508	18,508	3,177	14,546	17,673	4,047
Over	2,000	Up to	4,000	4,452	9,255	2,459	4,502	9,051	2,794
Over	4,000	Up to	8,000	1,155	4,806	1,596	1,244	5,090	1,779
Over	8,000	Up to	20,000	783	7,576	2,326	825	7,953	2,463
Over	20,000	Up to	40,000	383	8,336	2,420	401	8,712	2,653
Over	40,000	Up to	200,000	516	31,821	13,924	486	29,572	13,471
Over	200,000	Up to	400,000	99	16,074	11,906	93	14,281	10,517
Over	400,000	Up to	800,000	35	10,306	8,321	27	7,569	7,411
Over	800,000	Up to	1,200,000	13	7,864	4,849	9	3,573	4,506
Over	1,200,000	Up to	1,600,000	6	5,692	2,745	3	1,374	3,066
Over	1,600,000	Up to	2,000,000	2	120	3,750	1	1,266	345
Over	2,000,000	Up to	2,400,000	1	1,873	138	2	1,640	2,493
Over	2,400,000	Up to	2,800,000	1	1,622	902	1	2,566	153
Over	2,800,000	Up to	3,200,000	–	–	–	–	–	–
Over	3,200,000			1	901	2,761	1	1,793	1,576
Total				**858,766**	**177,288**	**79,971**	**819,348**	**164,247**	**75,887**

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower.

(4) The credit limit un the top level: NIS 3,662 million (2022: NIS 3,369 million).

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

E. Off-Balance Sheet Financial Instruments

	Consolidated		The Bank		Consolidated		The Bank	
	Balance(1)	Provision(2)	Balance(1)	Provision(2)	Balance(1)	Provision(2)	Balance(1)	Provision(2)
	December 31, 2023				December 31, 2022			
	in NIS millions							
Transactions in which the balance represents credit risk:								
Letters of credit	749	4	450	4	1,437	4	1,160	3
Credit guarantees	3,440	51	2,767	46	2,846	37	2,385	33
Guarantees for home purchasers	15,504	6	14,599	5	18,426	6	17,513	6
Other guarantees and obligations	15,783	40	14,143	36	14,163	51	12,594	48
Unutilized facilities for transactions in derivative instruments	4,562	-	4,404	-	5,755	-	5,687	-
Unutilized facilities credit line for credit cards	45,027	76	9,308	42	39,402	70	8,404	33
Unutilized current loan account facilities and other credit facilities in on-call accounts	11,007	82	8,696	58	10,370	65	8,224	50
Irrevocable commitments to extend credit approved but not yet granted(3)(4)	33,134	260	25,072	220	30,850	184	23,169	157
Commitment to issue guarantees	17,143	10	16,103	9	15,095	7	14,034	6

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaining interest rates" according to Proper Management Directive No. 451 "Procedures for the granting of housing loans".

(4) Including a cancellable liabilities at IDB Bank.

F. Guarantees

(1) General

The Bank provides a broad variety of guarantees and indemnities for its customers to improve their credit ability and to enable them to complete a wide range of transactions. For certain contracts, which meet the definition of the guarantee, the Bank recognizes – at the time of initial recognition – a liability in the amount of the fair value of the obligation for the guarantee at the time of issuing the guarantee. The maximum amount of the potential future payments is determined according to the nominal amount of the guarantees, without taking into account possible repayments or collateral held or pledged.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

F. Guarantees (continued)

(2) Potential future payments

	Consolidated						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2023						
Letters of credit (standby)	68	83	–	1	–	152	–
Credit guarantees	1,931	1,402	82	25	–	3,440	40
Guarantees for home purchasers	–	–	–	–	15,504	15,504	52
Other guarantees and obligations	7,421	2,994	1,644	3,724	–	15,783	76
Total	**9,420**	**4,479**	**1,726**	**3,750**	**15,504**	**34,879**	**168**
	December 31, 2022						
Letters of credit (standby)	396	14	–	4	–	414	–
Credit guarantees	1,885	722	204	35	–	2,846	31
Guarantees for home purchasers	–	–	–	–	18,426	18,426	66
Other guarantees and obligations	7,616	2,969	843	2,735	–	14,163	68
Total	**9,897**	**3,705**	**1,047**	**2,774**	**18,426**	**35,849**	**165**

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

F. Guarantees (continued)

(2) Potential future payments

	The Bank						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2023						
Letters of credit (standby)	51	78	–	–	–	129	–
Credit guarantees	1,323	1,345	75	24	–	2,767	32
Guarantees for home purchasers	–	–	–	–	14,599	14,599	49
Other guarantees and obligations	6,394	2,667	1,627	3,455	–	14,143	58
Total	**7,768**	**4,090**	**1,702**	**3,479**	**14,599**	**31,638**	**139**
	December 31, 2022						
Letters of credit (standby)	390	–	–	–	–	390	–
Credit guarantees	1,492	662	202	29	–	2,385	26
Guarantees for home purchasers	–	–	–	–	17,513	17,513	62
Other guarantees and obligations	6,501	2,702	807	2,584	–	12,594	51
Total	**8,383**	**3,364**	**1,009**	**2,613**	**17,513**	**32,882**	**139**

(3) Evaluation of the guarantee risk

Most of the guaranties are rated according to the Credit Granting Rating.

32. Assets and Liabilities according to Linkage Terms

Consolidated

	December 31, 2023						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	44,162	14	6,059	556	324	–	51,115
Securities	31,660	3,925	19,849	1,831	–	2,003	59,268
Securities borrowed or purchased under agreements to resell	851	–	–	–	–	–	851
Net credit to the public	189,185	29,084	36,447	3,035	976	–	258,727
Credit to the Government	722	195	1,020	1,136	–	–	3,073
Investments in Associates	2	–	–	–	–	469	471
Buildings and equipment	–	–	–	–	–	4,535	4,535
Intangible assets and goodwill	–	–	–	–	–	161	161
Assets for derivative instruments	3,779	428	4,493	382	198	1,826	11,106
Other assets	2,908	94	1,365	107	107	1,836	6,417
Total assets	**273,269**	**33,740**	**69,233**	**7,047**	**1,605**	**10,830**	**395,724**
Liabilities							
Deposits from the public	197,718	5,935	84,815	7,336	1,793	–	297,597
Deposits from banks	9,092	–	2,139	67	30	–	11,328
Deposits from the Government	45	–	31	–	–	–	76
Securities lent or sold under agreements to repurchase	1,206	–	11,436	–	–	–	12,642
Bonds and Subordinated debt notes	2,685	9,864	2,942	–	–	–	15,491
Liabilities for derivative instruments	4,556	405	3,136	401	149	1,822	10,469
Other liabilities	16,108	728	1,770	17	28	232	18,883
Total liabilities	**231,410**	**16,932**	**106,269**	**7,821**	**2,000**	**2,054**	**366,486**
Difference	41,859	16,808	(37,036)	(774)	(395)	8,776	29,238
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(42,887)	1,385	40,593	458	451	–	–
Net options in the money (in terms of underlying asset)	(187)	–	57	125	5	–	–
Net options out of the money (in terms of underlying asset)	(199)	–	71	140	(12)	–	–
Total	**(1,414)**	**18,193**	**3,685**	**(51)**	**49**	**8,776**	**29,238**
Net options in the money (discounted par value)	(247)	–	74	172	1	–	–
Net options out of the money (discounted par value)	(2,283)	–	2,164	137	(18)	–	–

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

Consolidated (continued)

	December 31, 2022						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	59,087	18	5,827	367	414	-	65,713
Securities	21,961	2,494	17,484	1,061	1	1,793	44,794
Securities borrowed or purchased under agreements to resell	857	-	-	-	-	-	857
Net credit to the public	179,846	24,334	34,013	2,362	524	-	241,079
Credit to the Government	596	222	1,172	609	-	-	2,599
Investments in Associates	2	-	-	-	-	484	486
Buildings and equipment	-	-	-	-	-	3,904	3,904
Intangible assets and goodwill	-	-	-	-	-	162	162
Assets for derivative instruments	2,180	430	7,102	625	83	1,000	11,420
Other assets	2,305	27	1,357	74	99	1,878	5,740
Total assets	**266,834**	**27,525**	**66,955**	**5,098**	**1,121**	**9,221**	**376,754**
Liabilities							
Deposits from the public	196,945	4,188	82,869	6,512	1,779	-	292,293
Deposits from banks	13,622	-	1,646	83	25	-	15,376
Deposits from the Government	28	1	88	-	-	-	117
Securities lent or sold under agreements to repurchase	-	-	3,739	-	-	-	3,739
Bonds and Subordinated debt notes	4,050	8,258	-	-	-	-	12,308
Liabilities for derivative instruments	2,377	546	4,886	465	74	1,000	9,348
Other liabilities	15,661	761	1,387	12	25	249	18,095
Total liabilities	**232,683**	**13,754**	**94,615**	**7,072**	**1,903**	**1,249**	**351,276**
Difference	34,151	13,771	(27,660)	(1,974)	(782)	7,972	25,478
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(31,603)	(1,525)	30,354	1,846	928	-	-
Net options in the money (in terms of underlying asset)	(56)	-	119	(32)	(31)	-	-
Net options out of the money (in terms of underlying asset)	(491)	-	388	124	(21)	-	-
Total	**2,001**	**12,246**	**3,201**	**(36)**	**94**	**7,972**	**25,478**
Net options in the money (discounted par value)	246	-	(113)	(85)	(48)	-	-
Net options out of the money (discounted par value)	(2,936)	-	2,509	494	(67)	-	-

Footnote:
(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank

	December 31, 2023						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	39,106	450	5,255	432	198	-	45,441
Securities	25,329	3,818	9,688	1,566	-	174	40,575
Securities lent or sold under agreements to resell	851	-	-	-	-	-	851
Net credit granted to the public	136,569	23,250	6,814	2,881	691	-	170,205
Credit granted to Governments	722	195	1,020	1,136	-	-	3,073
Investments in associates	1,800	-	-	-	-	12,984	14,784
Buildings and equipment	-	-	-	-	-	2,843	2,843
Assets for derivative instruments	3,770	432	3,759	382	200	1,816	10,359
Other assets	1,973	-	75	19	103	590	2,760
Total assets	**210,120**	**28,145**	**26,611**	**6,416**	**1,192**	**18,407**	**290,891**
Liabilities							
Deposits from the public	153,861	13,996	48,120	6,809	1,649	-	224,435
Deposits from banks	5,041	17	1,056	44	31	-	6,189
Deposits from the Government	-	-	-	-	-	-	-
Securities lent or sold under agreements to repurchase	1,206	-	11,436	-	-	-	12,642
Subordinated capital notes	-	155	2,942	-	-	-	3,097
Liabilities for derivative instruments	4,555	400	2,505	402	149	1,812	9,823
Other liabilities	5,438	501	119	8	25	140	6,231
Total liabilities	**170,101**	**15,069**	**66,178**	**7,263**	**1,854**	**1,952**	**262,417**
Difference	40,019	13,076	(39,567)	(847)	(662)	16,455	28,474
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(42,132)	1,247	39,601	591	693	-	-
Net options in the money (in terms of base asset)	(187)	-	57	125	5	-	-
Net options out of the money (in terms of base asset)	(199)	-	71	140	(12)	-	-
Total	**(2,499)**	**14,323**	**162**	**9**	**24**	**16,455**	**28,474**
Net options in the money (discounted nominal value)	(247)	-	74	172	1	-	-
Net options out of the money (discounted nominal value)	(2,283)	-	2,164	137	(18)	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank (continued)

	December 31,2022						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	49,250	-	3,851	266	308	-	53,675
Securities	15,684	2,392	8,367	811	1	164	27,419
Securities lent or sold under agreements to resell	857	-	-	-	-	-	857
Net credit granted to the public	131,080	19,320	5,140	2,239	343	-	158,122
Credit granted to Governments	594	222	1,172	609	-	-	2,597
Investments in associates	1,760	-	-	-	-	11,092	12,852
Buildings and equipment	-	-	-	-	-	2,387	2,387
Assets for derivative instruments	2,164	436	6,209	612	83	994	10,498
Other assets	1,500	-	111	10	98	621	2,340
Total assets	**202,889**	**22,370**	**24,850**	**4,547**	**833**	**15,258**	**270,747**
Liabilities							
Deposits from the public	153,976	10,304	45,554	5,994	1,591	-	217,419
Deposits from banks	9,241	22	486	57	25	-	9,831
Deposits from the Government	-	1	-	-	-	-	1
Securities lent or sold under agreements to repurchase	-	-	3,739	-	-	-	3,739
Subordinated capital notes	-	192	-	-	-	-	192
Liabilities for derivative instruments	2,388	522	4,094	459	73	994	8,530
Other liabilities	5,328	525	103	9	22	168	6,155
Total liabilities	**170,933**	**11,566**	**53,976**	**6,519**	**1,711**	**1,162**	**245,867**
Difference	31,956	10,804	(29,126)	(1,972)	(878)	14,096	24,880
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(30,366)	(1,149)	28,762	1,796	957	-	-
Net options in the money (in terms of base asset)	(56)	-	119	(32)	(31)	-	-
Net options out of the money (in terms of base asset)	(491)	-	388	124	(21)	-	-
Total	**1,043**	**9,655**	**143**	**(84)**	**27**	**14,096**	**24,880**
Net options in the money (discounted nominal value)	246	-	(113)	(85)	(48)	-	-
Net options out of the money (discounted nominal value)	(2,936)	-	2,509	494	(67)	-	-

Footnote:
(1) Includes those linked to foreign currency.

33. Assets and Liabilities according to Currency and Maturity Periods

Consolidated - in NIS millions[5]

A. Anticipated Future Contractual Cash Flows as of December 31, 2023

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency (including linked to foreign currency):					
Assets[10]	91,550	24,081	42,918	33,674	24,904
Liabilities	150,905	31,297	46,513	7,412	4,471
Difference	**(59,355)**	**(7,216)**	**(3,595)**	**26,262**	**20,433**
Derivative instruments (excluding options)	(8,362)	(12,705)	(20,563)	(651)	484
Options (in terms of underlying assets)	1,596	490	113	111	-
Difference after effect of derivative instruments:	(66,121)	(19,431)	(24,045)	25,722	20,917
Foreign currency[8]:					
Assets[11]	17,306	7,366	12,715	10,915	10,392
Liabilities	63,974	16,391	30,345	2,841	1,144
Difference	**(46,668)**	**(9,025)**	**(17,630)**	**8,074**	**9,248**
Of which: Difference in dollar	(43,792)	(8,172)	(16,302)	7,445	7,568
Of which: Difference for foreign activity	(25,398)	1,062	3,369	6,031	6,008
Derivative instruments (excluding options)	8,362	12,705	20,563	651	(484)
Options (in terms of underlying assets)	(1,596)	(490)	(113)	(111)	-
Difference after effect of derivative instruments:	(39,902)	3,190	2,820	8,614	8,764
Total:					
Assets[1]	108,856	31,447	55,633	44,589	35,296
Liabilities[2]	214,879	47,688	76,858	10,253	5,615
Difference	**(106,023)**	**(16,241)**	**(21,225)**	**34,336**	**29,681**
Derivative instruments (excluding options)	-	-	-	-	-
Options (in terms of underlying assets)	-	-	-	-	-
[1] Of which: Credit to the public	48,421	21,331	43,424	36,532	25,622
[2] Of which: Deposits from the public	192,516	39,095	61,358	3,465	574
B. Balance Sheet Amount as December 31, 2022					
Total:					
Assets[3]	120,785	24,861	47,376	43,238	27,360
Liabilities[4]	216,946	31,184	69,343	12,018	6,245
Difference	**(96,161)**	**(6,323)**	**(21,967)**	**31,220**	**21,115**
[3] Of which: Credit to the public	45,285	19,821	39,477	35,564	21,958
[4] Of which: Deposits from the public	200,595	26,834	54,684	4,661	1,014

Footnotes:

(5) This Note presents the anticipated future contractual cash flows for assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made according to an estimate based on the credit periods for which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts for derivatives.

(7) Includes past-due receivables totaling NIS 375 million (2022: NIS 270 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note for a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 5,585 million (2022: NIS 4,953 million) and an amount of NIS 739 million with no due date (2022: NIS 547 million).

(11) Including current loan account credit facilities in the amount of NIS 345 million (2022: NIS 330 million) and an amount of NIS 53 million with no due date (2022: NIS 99 million).

						Balance sheet amount[6]		
Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	No fixed maturity date[7]	Total	The contractual rate of return,in percentages[9]
18,777	14,743	52,537	46,901	16,247	366,332	1,060	307,157	5.57
2,833	2,312	5,066	1,490	201	252,500	-	248,511	2.88
15,944	**12,431**	**47,471**	**45,411**	**16,046**	**113,832**	**1,060**	**58,646**	**2.69**
(529)	1,285	(1,094)	60	-	(42,075)	-	(41,520)	-
-	-	-	-	-	2,310	-	(52)	-
15,415	13,716	46,377	45,471	16,046	74,067	1,060	17,074	-
5,342	5,159	15,192	7,225	3,084	94,696	1,117	77,737	4.73
760	3,681	1,805	512	94	121,547	2	115,921	4.10
4,582	**1,478**	**13,387**	**6,713**	**2,990**	**(26,851)**	**1,115**	**(38,184)**	**0.63**
4,145	1,260	12,188	6,428	2,965	(26,267)	898	(36,947)	-
3,235	3,239	7,225	5,518	2,633	12,922	975	4,509	-
529	(1,285)	1,094	(60)	-	42,075	-	41,520	-
-	-	-	-	-	(2,310)	-	52	-
5,111	193	14,481	6,653	2,990	12,914	1,115	3,388	-
24,119	19,902	67,729	54,126	19,331	461,028	2,177	384,894	5.40
3,593	5,993	6,871	2,002	295	374,047	2	364,432	3.27
20,526	**13,909**	**60,858**	**52,124**	**19,036**	**86,981**	**2,175**	**20,462**	**2.13**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
18,975	16,337	45,783	44,073	16,070	316,568	746	258,727	5.74
605	357	1,161	500	9	299,640	-	297,597	3.45
23,959	19,812	57,807	46,877	16,977	429,052	2,073	367,533	4.55
2,945	2,803	5,852	2,210	382	349,928	2	350,027	2.10
21,014	**17,009**	**51,955**	**44,667**	**16,595**	**79,124**	**2,071**	**17,506**	**2.45**
16,933	14,980	41,188	38,625	13,481	287,312	1,044	241,079	5.35
297	528	411	530	7	289,561	-	292,293	2.00

33. Assets and Liabilities according to Currency and Maturity Periods (continued)

The Bank - in NIS millions(5)

A. Anticipated Future Contractual Cash Flows as of December 31, 2023

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency):					
Assets(10)	74,152	17,297	32,563	24,982	18,601
Liabilities	113,655	23,736	32,305	5,065	3,713
Difference	**(39,503)**	**(6,439)**	**258**	**19,917**	**14,888**
Derivative instruments (excluding options)	(8,021)	(12,615)	(20,207)	(651)	484
Options (in terms of base assets)	1,596	490	113	111	-
Difference after effect of derivative instruments:	(45,928)	(18,564)	(19,836)	19,377	15,372
Foreign currency(8):					
Assets(11)	13,884	4,475	3,330	2,846	3,668
Liabilities	33,275	14,362	23,728	938	493
Difference	**(19,391)**	**(9,887)**	**(20,398)**	**1,908**	**3,175**
Of which: Difference in dollar	(17,221)	(9,015)	(19,069)	1,457	1,997
Of which: Difference for foreign activity	-	-	-	-	-
Derivative instruments (excluding options)	8,021	12,615	20,207	651	(484)
Options (in terms of underlying assets)	(1,596)	(490)	(113)	(111)	-
Difference after effect of derivative instruments:	(12,966)	2,238	(304)	2,448	2,691
Total:					
Assets(1)	88,036	21,772	35,893	27,828	22,269
Liabilities(2)	146,930	38,098	56,033	6,003	4,206
Difference	**(58,894)**	**(16,326)**	**(20,140)**	**21,825**	**18,063**
Derivative instruments (excluding options)					
Options (in terms of base assets)					
(1) Of which: Credit to the public	37,790	11,698	24,109	21,243	13,837
(2) Of which: Deposits from the public	135,055	31,215	46,613	3,560	2,920
B. Balance Sheet Amount as December 31, 2022					
Total:					
Assets(3)	96,060	16,240	29,957	27,299	17,729
Liabilities(4)	153,045	22,456	52,452	7,024	4,790
Difference	**(56,985)**	**(6,216)**	**(22,495)**	**20,275**	**12,939**
(3) Of which: Credit to the public	36,017	11,291	22,282	20,539	13,070
(4) Of which: Deposits from the public	143,076	19,247	43,606	2,934	2,928

Footnotes:

(5) This Note presents the anticipated future contractual cash flows for assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made according to an estimate based on the credit periods for which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts for derivatives.

(7) Includes past-due receivables totaling NIS 175 million (2022: NIS 185 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note for a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 3,553 million (2022: NIS 2,888 million) and an amount of NIS 470 million with no due date (2022: NIS 378 million).

(11) Including current loan account credit facilities in the amount of NIS 311 million (2022: NIS 292 million) and an amount of NIS 44 million with no due date (2022: NIS 90 million).

Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	Balance sheet amount[6] No fixed maturity date[7]	Total	The contractual rate of return, in percentages[9]
14,601	10,690	37,673	36,313	12,710	279,582	1,773	238,323	5.61
2,219	2,316	4,531	930	135	188,605	-	185,304	2.70
12,382	**8,374**	**33,142**	**35,383**	**12,575**	**90,977**	**1,773**	**53,019**	**2.92**
(529)	1,285	(1,094)	60	-	(41,288)	-	(40,907)	-
-	-	-	-	-	2,310	-	(52)	-
11,853	9,659	32,048	35,443	12,575	51,999	1,773	12,060	-
1,598	1,453	5,942	1,254	368	38,818	142	34,161	4.06
350	3,277	522	271	84	77,300	2	75,161	3.90
1,248	**(1,824)**	**5,420**	**983**	**284**	**(38,482)**	**140**	**(41,000)**	**0.16**
846	(2,016)	4,561	740	283	(37,437)	(2)	(39,499)	-
-	-	-	-	-	-	-	-	-
529	(1,285)	1,094	(60)	-	41,288	-	40,907	-
-	-	-	-	-	(2,310)	-	52	-
1,777	(3,109)	6,514	923	284	496	140	(41)	-
16,199	12,143	43,615	37,567	13,078	318,400	1,915	272,484	5.42
2,569	5,593	5,053	1,201	219	265,905	2	260,465	3.04
13,630	**6,550**	**38,562**	**36,366**	**12,859**	**52,495**	**1,913**	**12,019**	**2.38**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
11,486	9,594	30,839	34,114	12,618	207,328	741	170,205	5.61
1,847	2,021	3,614	180	-	227,025	-	224,435	3.34
16,707	13,777	38,157	33,227	11,325	300,478	1,793	255,489	4.12
3,404	2,212	5,035	1,388	282	252,088	2	244,705	1.62
13,303	**11,565**	**33,122**	**31,839**	**11,043**	**48,390**	**1,791**	**10,784**	**2.50**
10,304	8,890	28,457	30,143	10,695	191,688	619	158,122	4.83
2,587	1,587	3,247	163	-	219,375	-	217,419	1.69

34. Balances and Fair Value Estimates of Financial Instruments

A. General

The instruction of the Bank of Israel for determining the fair value of financial instruments (the "instruction"), was applied based on the methods and principal assumptions described hereunder. Nothing in the data presented hereunder should be taken as an indication of the Bank's economic value, nor does the data purport to assess such value.

B. Fair value of financial instruments

Most of the Bank's financial instruments do not quote "market price" because there is no active market in which they are traded. Therefore, according to the instruction, fair value is based on accepted pricing models, such as the present value of cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount interest rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not necessarily serve as an indication for the realization value of the financial instrument on the reporting date.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Estimating the future cash flows was made by interest rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

Additionally, no consideration was given to fees and commissions receivable or payable as part of the business activity and the effect of the non-controlling interests and the tax effect were not included.

It should be further noted, that the differential between the book value and the amounts presented in fair value, may never be realized, as the Bank usually holds the financial instrument to maturity. In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

C. Methods and main assumptions used in estimating the fair value of financial instruments

Bank deposits, non-marketable bonds and loan notes and credit to the Government - discounting future cash flows at interest rates at which the Bank transacted business at the reporting date.

Marketable securities - market value for securities traded on an active market, or quotations of international providers of prices for securities traded on an inactive market.

Net credit to the public - Fair value of the balance of credit to the public was determined at the present value of future cash flows using an appropriate discount rate. The present value is measured for the future cash inflows (net of the effect of accounting write-offs and allowances for credit losses) separately for each loan, at a rate of interest reflecting the risk level inherent in the credit.

Determination of the risk level has, to the extent possible, been made, on the basis of a grading model used at present by the Bank, which reviews the level of risk inherent in the debt according to financial and other indices. It should be noted that as of December 31, 2023, the Bank has classified approx. 99% of the indebtedness which has to be classified according to the directives of the Supervisor of Banks (December 31, 2022: approx. 99%). The discounting interest rates have, generally, been determined according to the interest rates used in similar transactions made by the bank as of the date of the report.

In certain cases, where grading data is not available, the segmentation is made on the basis of an overall evaluation of the risk level relating to the business sectors in which the borrowers operate. In this respect, it should be noted that the general risk level, as evaluated for a particular business sector, is not necessarily identical to the risk level of a particular borrower operating in that sector, none the less, to the risk level relating to the credit which the Bank grants to that borrower.

The fair value of impaired debts was computed using discount interest rates reflecting the high credit risk inherent therein. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions as of the date of the report.

Increasing the discount interest rate by 1 basis point would have reduced the fair value of the problematic debts by NIS 2.7 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the problematic debts by NIS 2.1 million (compared to decrease of fair value by NIS 2.3 million and NIS 1.5 million, respectively, as of December 31, 2022).

Cash flows for mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows according to expected repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 212 million (compared to an increase NIS 167 million at December 31, 2022). The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.74 years on December 31, 2023, compared to 3.33 years, taking into consideration the forecast for early redemptions (December 31, 2022: 3.87 years compared to 3.46 years, respectively).

Deposits, bonds and subordinated debt notes - Capitalizing future cash flows at a rate at which the Bank pays interest on similar deposits, or on the issue of similar bond and debt notes at the reporting date, Based on parameters, such as: the period of the deposit, type of linkage.

Marketable subordinate debt notes are stated at market value.

Cash flows for deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows according to expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly the non-linked deposits, by NIS 246 million (compared to NIS 537 million at December 31, 2022). The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached on December 31, 2022 to 2.61 years, compared to 2.50 years, taking into consideration the forecast for early redemption (December 31, 2022: 2.79 years and 2.67 years, respectively).

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Financial instruments (except for derivatives and marketable financial instruments) for an initial period of up to three months and at a variable market interest rate - Some of the subsidiaries assume that the balance stated in the balance sheet reflects fair value.

Derivative financial instruments - Such financial instruments, which have an active market, were evaluated at their market value, and where several such markets exist, the evaluation was made according to the most active market.

Derivative financial instruments which are not traded on an active market were evaluated according to models in use by the Bank in its current operations and which take into account the risks involved in the financial instrument: market, credit and other risks.

Off balance sheet financial instruments which involve credit risk - The fair value is presented according to the outstanding balance-sheet balance of fees and commissions on the said transactions, which approximate fair value. The fair value of irrevocable commitments to grant credit, which were approved but not yet executed, does not differ materially from the value of these commitments, as they are presented in Note 31 E.

The bank and its banking subsidiaries in Israel present the balances and fair value estimates of Financial Instruments according to the directive of the Supervisor of Banks. A banking subsidiary abroad presents the balances and fair value estimates of Financial Instruments according to generally accepted accounting principles in the US, which do not materially differ from those of the Supervisor.

D. Composition - consolidated(3)

	December 31, 2023				
	Book value	Fair value			
		Level 1(1)	Level 2(1)	Level 3(1)	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	51,115	17,053	-	34,043	51,096
Securities(2)	59,268	40,275	16,030	1,732	58,037
Securities borrowed or purchased under agreements to resell	851	-	-	851	851
Net credit to the public	258,727	4,157	-	252,183	256,340
Credit to Governments	3,073	-	-	3,047	3,047
Assets for derivative instruments	11,106	1,858	5,796	3,452	11,106
Other financial assets	2,387	3	1	2,383	2,387
Total financial assets	**(3)386,527**	**63,346**	**21,827**	**297,691**	**382,864**
Financial liabilities					
Deposits from the public	297,597	30,127	197,432	69,967	297,526
Deposits from banks	11,328	569	6,347	4,492	11,408
Deposits from the Government	76	-	46	30	76
Securities lent or sold under agreements to repurchase	12,642	-	-	12,561	12,561
Bonds and Subordinated debt notes	15,491	11,474	2,978	254	14,706
Liabilities for derivative instruments	10,469	1,858	8,185	426	10,469
Other financial liabilities (4)	15,037	836	14	14,187	15,037
Total financial liabilities	**(3)362,640**	**44,864**	**215,002**	**101,917**	**361,783**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	168	-	-	168	168

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 12.

(3) Of which: assets and liabilities in the amount of NIS 80,918 million and NIS 144,435 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value) or constitutes a fair value approximation. For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items E 1 and E 2 below.

(4) Not including liabilities for leasing.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

D. Composition - consolidated[3] (continued)

	December 31, 2022				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	65,713	28,753	-	36,779	65,532
Securities[2]	44,794	29,006	12,839	1,696	43,541
Securities borrowed or purchased under agreements to resell	857	-	-	857	857
Net credit to the public	241,079	4,211	-	234,847	239,058
Credit to Governments	2,599	-	-	2,592	2,592
Assets for derivative instruments	11,420	1,006	6,578	3,836	11,420
Other financial assets	1,669	20	3	1,646	1,669
Total financial assets	**(3)368,131**	**62,996**	**19,420**	**282,253**	**364,669**
Financial liabilities					
Deposits from the public	292,293	31,284	178,641	80,886	290,811
Deposits from banks	15,376	763	3,533	10,665	14,961
Deposits from the Government	117	-	29	88	117
Securities lent or sold under agreements to repurchase	3,739	-	-	3,747	3,747
Bonds and Subordinated debt notes	12,308	11,032	51	364	11,447
Liabilities for derivative instruments	9,348	1,004	7,779	565	9,348
Other financial liabilities [4]	14,500	690	8	13,802	14,500
Total financial liabilities	**(3)347,681**	**44,773**	**190,041**	**110,117**	**344,931**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	165	-	-	165	165

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 12.

(3) Of which: assets and liabilities in the amount of NIS 72,065 million and NIS 159,904 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items E 1 and E 2 below.

(4) Not including liabilities for leasing.

(5) Improvement in the calculations at a subsidiary.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated

1. Items measured at fair value on a recurring basis

	December 31, 2023				
	Fair value measurements using –				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	18,377	3,962	-	-	22,339
Foreign Governments bonds	5,217	130	-	-	5,347
Israeli financial institutions bonds	70	29	-	-	99
Foreign financial institutions bonds	-	630	-	-	630
Bonds backed by assets (ABS) or by mortgage (MBS)	-	5,654	-	-	5,654
Bonds of others in Israel	184	100	-	-	284
Bonds of others abroad	-	2,097	-	-	2,097
Shares not for trading	167	-	-	-	167
Total available-for-sale bonds and shares not for trading	**24,015**	**12,602**	**-**	**-**	**36,617**
Trading Securities					
Israeli Government bonds	7,495	62	-	-	7,557
Foreign Governments bonds	76	-	-	-	76
Israeli financial institutions bonds	-	-	-	-	-
Foreign financial institutions bonds	-	-	-	-	-
Bonds backed by assets (ABS) or by mortgage (MBS)	-	-	-	-	-
Bonds of others in Israel	3	-	-	-	3
Bonds of others abroad	-	-	-	-	-
Trading Shares	82	22	-	-	104
Total trading securities	**7,656**	**84**	**-**	**-**	**7,740**
Credit to the public for securities loaned	4,157	-	-	-	4,157
Assets for derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	434	-	434
Other Interest Rate Contracts	-	4,254	161	-	4,415
Foreign Currency Contracts	37	1,288	2,857	-	4,182
Shares Contracts	1,821	254	-	-	2,075
Commodity and other Contracts	-	-	-	-	-
Total assets for derivative instruments	1,858	5,796	3,452	-	11,106
Other	-	1	-	-	1
Assets for the "Maof" market operations	3	-	-	-	3
Total assets	**37,689**	**18,483**	**3,452**	**-**	**59,624**
Liabilities					
Deposits from the public for securities borrowed	3,472	-	-	-	3,472
Deposits from banks for securities borrowed	-	-	-	-	-
CLN deposits	-	-	-	-	-
Liabilities for derivative instruments					
Shekel/CPI Interest Rate Contracts	-	2	340	-	342
Other Interest Rate Contracts	-	3,716	-	-	3,716
Foreign Currency Contracts	37	4,220	86	-	4,343
Shares Contracts	1,821	247	-	-	2,068
Commodity and other Contracts	-	-	-	-	-
Total liabilities for derivative instruments	1,858	8,185	426	-	10,469
Other	-	14	-	-	14
Commitments for the "Maof" market operations	3	-	-	-	3
Short sales of securities	833	-	-	-	833
Total liabilities	**6,166**	**8,199**	**426**	**-**	**14,791**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	December 31, 2022				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	10,447	2,178	-	-	12,625
Foreign Governments bonds	5,306	69	-	-	5,375
Israeli financial institutions bonds	86	3	-	-	89
Foreign financial institutions bonds	-	549	-	-	549
Bonds backed by assets (ABS) or by mortgage (MBS)	-	5,155	-	-	5,155
Bonds of others in Israel	201	124	-	-	325
Bonds of others abroad	-	1,681	-	-	1,681
Shares not for trading	130	-	-	-	130
Total available-for-sale bonds and shares not for trading	**16,170**	**9,759**	**-**	**-**	**25,929**
Trading Securities					
Of the Israeli Government	2,136	70	-	-	2,206
Of foreign governments	76	-	-	-	76
Of Israeli financial institutions	-	-	-	-	-
Of foreign financial institutions	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	-	-	-	-
Of others in Israel	14	-	-	-	14
Of others abroad	-	-	-	-	-
Shares	2	24	-	-	26
Total trading securities	**2,228**	**94**	**-**	**-**	**2,322**
Credit to the public for securities loaned	4,211	-	-	-	4,211
Assets for derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	423	-	423
Other Interest Rate Contracts	2	5,355	153	-	5,510
Foreign Currency Contracts	4	1,201	3,260	-	4,465
Shares Contracts	1,000	22	-	-	1,022
Commodity and other Contracts	-	-	-	-	-
Total assets for derivative instruments	1,006	6,578	3,836	-	11,420
Other	-	3	-	-	3
Assets for the "Maof" market operations	-	20	-	-	20
Total assets	**23,635**	**16,434**	**3,836**	**-**	**43,905**
Liabilities					
Deposits from the public for securities borrowed	3,693	-	-	-	3,693
Deposits from banks for securities borrowed	11	-	-	-	11
CLN deposits	-	-	-	-	-
Liabilities for derivative instruments					
Shekel/CPI Interest Rate Contracts	-	1	415	-	416
Other Interest Rate Contracts	-	5,185	-	-	5,185
Foreign Currency Contracts	4	2,574	150	-	2,728
Shares Contracts	1,000	19	-	-	1,019
Commodity and other Contracts	-	-	-	-	-
Total liabilities for derivative instruments	1,004	7,779	565	-	9,348
Other	-	8	-	-	8
Commitments for the "Maof" market operations	20	-	-	-	20
Short sales of securities	670	-	-	-	670
Total liabilities	**5,398**	**7,787**	**565**	**-**	**13,750**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	December 31, 2023				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the nine months ended September 30, 2023
	In NIS millions				
Problematic credit, the collection of which is collateral dependent	-	-	1,195	1,195	(35)
Not for trading shares	-	-	452	452	(38)

	December 31, 2022				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the year ended December 31, 2022
	In NIS millions				
Problematic credit, the collection of which is collateral dependent	-	-	491	491	(21)
Not for trading shares	-	-	105	105	(2)20

Footnotes:

(1) The downward adjustments amounted to NIS 2 million in the period ended December 31, 2023 (December 31, 2022 – no adjustments).
The upward adjustments amounted to NIS 45 million in the period ended December 31, 2023 (December 31, 2022 – NIS 35 million).
The impairment amounted to NIS 81 million as of December 31, 2023 (December 31, 2022 – NIS 15 million).

(2) Improvement in the calculations at a subsidiary.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

F. Changes in items measured at fair value on a recurring basis included in item 3 – consolidated

	Fair value as at beginning of period	Total realized and unrealized gains (losses) included in the statement of profit and loss	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of period	Unrealized gains (losses) on held instruments as at end of period
	in NIS millions							
	For the year ended December 31, 2023							
Net Assets (Liabilities) for derivative instruments								
Shekel/CPI Interest Rate Contracts	8	(1)3	–	83	–	–	94	(1)24
Other Interest Rate Contracts	153	(1)73	–	(66)	–	1	161	(1)63
Foreign Currency Contracts	3,110	(1)4,089	(193)	(4,235)	(10)	10	2,771	(1)2,324
Total	**3,271**	**4,165**	**(193)**	**(4,218)**	**(10)**	**11**	**3,026**	**2,411**
Liabilities								
CLN Deposits	–	(2)–	–	–	–	–	–	(2)–
	For the year ended December 31, 2022							
Net Assets (Liabilities) for derivative instruments								
Shekel/CPI Interest Rate Contracts	33	(1)(47)	–	22	–	–	8	(1)(26)
Other Interest Rate Contracts	125	(1)85	–	(9)	(87)	39	153	(1)104
Foreign Currency Contracts	827	(1)2,588	(173)	(125)	(2)	(5)	3,110	(1)2,957
Total	**985**	**2,626**	**(173)**	**(112)**	**(89)**	**34**	**3,271**	**3,035**
Liabilities								
CLN Deposits	(10)	(2)–	–	10	–	–	–	(2)–

Footnotes:
(1) Included in the statement of profit and loss in the item "Non-interest financing income".
(2) Included in the statement of profit and loss in the item "Interest income and expenses".

G. Transfers between hierarchy levels of fair value

Immaterial transfers to or from level 3 were made in 2022 and 2023, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

H. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information on the measurement of fair value at level 3

	Fair value as at December 31, 2023	Valuation Techniques	Unobservable inputs	Range (Weighted Average)				
	In NIS millions			In %				
A. Items measured at fair value not on a recurring basis								
Problematic credit the collection of which is collateral dependent	1,195	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	452	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets for derivative instruments								
Shekel/CPI Interest Rate Contracts	94	Discounted cash flow	Inflationary expectations	From	1.66%	to	3.91%	(2.22%)
			Counterparty credit risk (CVA)	From	0.00%	to	23.17%	(3.74%)
Other Interest Rate Contracts	161	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	20.63%	(0.22%)
Foreign Currency Contracts	2,771	Discounted cash flow	Inflationary expectations	From	1.66%	to	3.91%	(2.43%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	56.65%	(0.97%)

	Fair value as at December 31, 2022	Valuation Techniques	Unobservable inputs	Range (Weighted Average)				
	In NIS millions			In %				
A. Items measured at fair value not on a recurring basis								
Problematic credit the collection of which is collateral dependent	491	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	105	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets for derivative instruments								
Shekel/CPI Interest Rate Contracts	8	Discounted cash flow	Inflationary expectations	From	2.28%	to	4.84%	(2.74%)
			Counterparty credit risk (CVA)	From	0.00%	to	6.23%	(3.98%)
Other Interest Rate Contracts	153	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	33.33%	(0.20%)
Foreign Currency Contracts	3,110	Discounted cash flow	Inflationary expectations	From	2.28%	to	4.84%	(2.66%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	35.52%	(0.42%)

34. Balances and Fair Value Estimates of Financial Instruments (continued)

H. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3 (continued)

2. Qualitative information on the measurement of fair value at level 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are the interest graph in the CPI linked segment, and adjustments regarding counterparty credit risk (CVA). In as much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). In as much as the interest graph rises (falls) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value falls (rises). The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries

A. Balances

	December 31, 2023													
	Interested parties[1]										Related parties[1]			
											Held by the Bank			
	Controlling Shareholders[2]		Other shareholders[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Associates[8]		Others[9]	
	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)
	in NIS millions													
Assets:														
Deposits with banks	–	–	–	–	–	–	–	–	–	–	–	–	13	15
Securities[12]	–	–	–	–	–	–	–	–	–	–	–	–	198	198
Credit to the public	–	–	–	–	3	5	913	913			–	–	950	950
Provision for credit losses	–	–	–	–	–	–	(11)	(11)	–	–	–	–	(23)	(23)
Net credit to the public	–	–	–	–	3	5	902	902			–	–	927	927
Other assets	–	–	–	–	–	–	1,182	2,997	–	–	–	–	107	200
Liabilities:														
Deposits from the public	–	–	–	–	6	6	6,853	11,020	–	–	–	–	262	386
Deposits from banks	–	–	–	–	–	–	–	–	–	–	–	–	1,129	1,129
Subordinated debt notes	–	–	–	22	–	–	137	150	–	–	–	–	66	66
Other liabilities	–	–	566	566	29	29	2,198	2,488	–	–	–	–	371	786
Shares (included in equity)[13]	–	–	8,249	8,249	–	–	–	–	–	–	–	–	–	–
Credit risk in off-balance sheet financial instruments[12][14]	–	–	3	3	5	6	1,683	1,683	–	–	–	–	339	536

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

A. Balances (continued)

	December 31, 2022													
	Interested parties[1]										Related parties Held by the Bank[1]			
	Controlling Shareholders[2]		Other shareholders[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Associates[8]		Others[9]	
		(10)		(10)		(10)		(10)		(10)		(10)		(10)
	in NIS millions													
Assets:														
Deposits with banks	–	–	–	–	–	–	–	–	–	–	–	–	58	58
Securities	–	–	–	–	–	–	–	–	–	–	–	–	346	346
Credit to the public	–	–	–	–	4	4	322	585			–	–	371	429
Provision for credit losses	–	–	–	–	–	–	(2)	(5)	–	–	–	–	(14)	(19)
Net credit to the public	–	–	–	–	4	4	320	580			–	–	357	410
Other assets	–	–	–	–	–	–	1,271	1,515	–	–	–	–	126	196
Liabilities:														
Deposits from the public	–	–	64	300	2	5	8,591	11,511	–	–	–	–	267	396
Deposits from banks	–	–	–	–	–	–	–	–	–	–	–	–	631	647
Subordinated debt notes	–	–	20	21	–	–	154	268	–	–	–	–	70	70
Other liabilities	–	–	492	492	26	26	1,946	2,203	–	–	–	–	778	832
Shares (included in equity)[13]	–	–	8,335	8,335	–	–	–	–	–	–	–	–	–	–
Credit risk in off-balance sheet financial instruments[12][14]	–	–	4	4	9	9	1,121	1,121	–	–	–	–	586	586

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

B. Summarized results of transactions with related and interested parties

	Interested parties[1]				Related parties[1]	
					Held by the Bank	
	Controlling Shareholders[2]	Other shareholders[3][16]	Officers[4]	Others[6][7][16]	[8]Associates	Others[9]
	in NIS millions					
	For the year ended December 31, 2023					
Net interest income (expenses) (See item D)	-	(2)	-	(292)	-	1
credit loss expenses	-	-	-	(5)	-	(8)
Non-interest income	-	24	-	[15]1,351	-	79
Operating and other expenses (See item C)	-	-	(54)	(18)	-	(85)
Total	**-**	**22**	**(54)**	**1,036**	**-**	**(13)**
	For the year ended December 31, 2022					
Net interest income (expenses) (See item D)	-	(2)	-	(115)	1	4
credit loss income	-	-	-	4	-	4
Non-interest income	-	22	-	[15]1,824	22	173
Operating and other expenses (See item C)	-	-	(48)	(18)	(16)	(57)
Total	**-**	**20**	**(48)**	**1,695**	**7**	**124**
	For the year ended December 31, 2021					
Net interest income (expenses) (See item D)	-	(2)	-	(33)	8	14
credit loss income (expenses)	-	-	-	(2)	-	6
Non-interest income (expenses)	-	26	-	[15](299)	24	94
Operating and other expenses (See item C)	-	-	(45)	(23)	(12)	(49)
Total	**-**	**24**	**(45)**	**(357)**	**20**	**65**

For notes to the tables see after item D.

C. Compensation and any other benefit to interested parties (from the banking corporation and from investee companies)

	For the year ended December 31					
	2023		2022		2021	
	Officers[4]		Officers[4]		Officers[4]	
	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf[17]	47	16	39	16	39	16
Directors who are not employed by the Bank or on its behalf	7	10	8	9	6	9
Total	**54**	**26**	**47**	**25**	**45**	**25**

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

D. Net interest income, in transactions of the Bank and its consolidated subsidiaries with related and interested parties[18]

	Consolidated			Of which from Associates		
	2023	2022	2021	2023	2022	2021
	in NIS millions					
A. On assets						
Credit to the public	79	31	29	-	1	8
Total	**79**	**31**	**29**	**-**	**1**	**8**
B. On liabilities						
Deposits from the public	(326)	(102)	(15)	-	-	-
Deposits from the banks	(34)	(12)	(2)	-	-	-
Subordinated capital notes	(12)	(29)	(25)	-	-	-
Total	**(372)**	**(143)**	**(42)**	**-**	**-**	**-**
Total Net interest income	**(293)**	**(112)**	**(13)**	**-**	**1**	**8**

Footnotes: relating to Note 35 A,B,C & D:
(1) Interestse party, related party - as defined in section 80 d of the public Reporting Directives.
(2) Controlling shareholder and their relatives – according to section 80 d (1) of the public Reporting Directives.
(3) Other shareholders including whoever holds 5% or more of the means of control of a banking corporation or whoever is entitled to appoint one director or more of the directors or the president & CEO according to section 80 d (2) of the public Reporting Directive.
(4) Officers - according to section 80 d (3) of the public Reporting Directives.
(5) As regards the engagement terms see section O below
(6) according to section 80 d (4) of the public Reporting Directives.
(7) for corporations, where a person or a corporation included in one of the groups of interested parties, as above, according to the Securities Act, holds 25% or more of their issued share capital or of the voting therein, or which is entitled to appoint 25% or more of the directors thereof.
(8) Associates - according to section 80 d (7) of the public Reporting Directives.
(9) according to section 80 d (5) of the public Reporting Directives.
(10) The balance at balance sheet date.
(11) The highest balance during the year on the basis of month-end balances.
(12) Details of these section are included also in Securities - Note 12, and guarantees Note 26.
(13) Holdings of interested parties and of related parties in the equity of the banking corporation.
(14) Credit risks in off-balance sheet financial instruments as computed for restrictions on the indebtedness of borrowers.
(15) stemming mainly from derivative financial instruments activity and Clearing commissions.
(16) The amounts of the compensation do not include payroll tax.
(17) Including the officiating Chairman of the Board (see section F below)

E. (1) On December 3, 2013 the Bank became a bank with no core controlling interest.

(2) During 2020-2023, a number of entities managing customer funds were interested parties in the Bank, following the policy of the Bank of Israel in the matter of the granting of a bank holding permit to entities managing customer funds. It is noted that pursuant to the Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties", entities which had obtained a holding permit according to the said policy, who hold means of control of the Bank of a rate that does not exceed 7.5%, have been excluded from the definition of "related party", and accordingly, transactions of a banking corporation with such entities does not require approval according to the said Directive.

F. Compensation for the officiating Chairman of the Board and the former Chairman of the Board

Compensation for the officiating Chairman of the Board. The officiating Chairman of the Board of Directors took office as Chairman on December 11, 2023. On December 28, 2023, the Board of Directors resolved to accept the recommendation of the Compensation Committee, from December 4, 2023, and to approve the Chairman’s terms of service, starting from the commencement date of his service as the Bank's Chairman of the Board of Directors, as stated. The terms of office were approved by the General Meeting of Shareholders held on February 7, 2024:

1. Period of office - The terms of office apply as from December 11, 2023 and for a period of three years as long as he serves as Chairman of the Board of Directors.
2. Scope of office - The scope of office is 100% position as an active Chairman of the Board and according to the Bank's needs. The Chairman may not enter into additional engagement, unless he receives in advance the consent of the Board of Directors.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

3. Services rendered by the Chairman of the Board of Directors - The Chairman shall provide his services against issue to the Bank of an invoice. The Chairman shall bear any tax and other compulsory payments under the law, applying to any payment or benefit received according to his terms of office. Where required, VAT under the law will be added to any payment or right to which the Chairman is entitled according to his terms of office.
4. The Annual Compensation – For his services as Chairman of the Board, the Chairman shall be entitled to annual consideration in the amount of NIS 3,194 thousand, linked to the CPI, with the addition of VAT ("the Annual Compensation"). The Annual Compensation shall be subject to the compensation cap prescribed in Section 2(b) of the Compensation Law. With respect to fractions of a year, the Chairman shall be entitled to the proportionate part of the Annual Compensation.
5. Reimbursement of expenses – The Chairman shall be entitled to the reimbursement of reasonable expenses incurred by him in the fulfillment of his duties as is the practice of the Bank, subject to that stated in Directive 301A, provided that the annual cost to the Bank does not exceed the compensation cap prescribed in Section 2(b) of the Compensation Law. There is no cap for the total reimbursement for the expenses to which the Chairman is entitled in connection with the performance of his duties (including travel in Israel and abroad and telephone).
6. Additional rights - The Chairman shall continue to be entitled to exemption from the duty of care, to officer liability insurance and to an advance commitment for indemnification, as is the practice regarding officers of the Bank.
7. Additional duties - The Chairman is committed to an unpaid period of "cooling-off" and non-competition of six months since the date of termination of office, during which time the Chairman shall not engage in any way whatsoever in the management of a banking or financial institution in competition with the Bank and shall also not serve as a director or provide services or consulting to any banking or financial institution constituting a significant competitor of the Bank, during the non-competition period, unless he receives the Bank's consent to this, and he also undertakes to maintain confidentiality for an unlimited time.
8. Conformance with the Compensation Law – should the total Annual Compensation of the Chairman of the Board of Directors exceed the cap permitted under Section 2(b) of the Compensation Law for the relevant year (hereinafter: "the Excess"), the amount of the Excess shall be set off against the Chairman's Annual Compensation.

On February 7, 2024, the general meeting of the Bank's shareholders approved the aforesaid terms of office and the revision of the compensation policy for officers accordingly.

Compensation for the former Chairman of the Board. The Former Chairman of the Board acted in this office from December 3, 2018 until December 10, 2023.

(a) **Terms of office approved in February 2019.** The Board of Directors decided on February 26, 2019, to accept the recommendation of the Compensation Committee of February 12, 2019, and approve the terms of office of the Chairman, beginning with the date on which he takes office as Chairman of the Board of the Bank, and subject to the provisions of the law/regulation permitting such terms of office as stated:

1. Period of office - The terms of office apply as from December 3, 2018 and until the end of his period of office as Chairman of the Board (the Chairman ended his second period of office as Director on December 11, 2020, and was appointed to an additional period of office until December 11, 2023).
2. Scope of office - The scope of office is 100% position as an active Chairman of the Board and according to the Bank's needs. The Chairman may not enter into any additional paid engagement, unless he receives in advance the consent of the Board of Directors.
3. Services rendered by the Chairman of the Board of Directors - The Chairman shall provide his services against issue to the Bank of an invoice. The Chairman shall bear any tax and other compulsory payments under the law, applying to any payment or benefit received according to his terms of office. Where required, VAT under the law will be added to any payment or right to which the Chairman is entitled according to his terms of office.
4. The consideration – For his services as Chairman of the Board, the Chairman shall be entitled to annual consideration in the amount of NIS 2,425 thousand, linked to the CPI, with the addition of VAT under the law ("the annual consideration").
5. Deposits with severance pay and provident funds - In addition to the annual consideration, as stated, the Bank shall pay to the Chairman additional amounts, with the addition of VAT under the law, in lieu of severance pay, provident contributions and loss of work ability compensation, against the deposit thereof by the Chairman in Funds, so that the total of the comprehensive annual compensation payable to the Chairman, including deposits with severance pay and provident funds, would amount to NIS 2,796 thousand (linked to the CPI).

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

6. Additional terms – The Chairman shall be entitled to an appropriate motor vehicle or to reimbursement of expenses for use of his private vehicle and/or to telephone expenses and/or to benefits and other terms respecting his duties as Chairman of the Board, all as is the accepted practice at the Bank, and provided that the total annual cost to the Bank for the terms of office shall not exceed the annual consideration (not including deposits with severance compensation and provident funds).
7. Expenses – The Chairman shall be entitled to the reimbursement of reasonable expenses incurred by him in the fulfillment of his duties, according to the accepted practice at the Bank.
8. Additional rights - The Chairman shall continue to be entitled to exemption from the duty of care, to officer liability insurance and to an advance commitment for indemnification, as is the practice regarding officers of the Bank.
9. Additional duties - The Chairman is committed to a non-competition and a "cooling-off" period of six months since the date of termination of office and to the maintaining of confidentiality for an unlimited period.

On April 3, 2019, the general meeting of the Bank's shareholders approved the aforesaid terms of office and the revision of the compensation policy for officers accordingly. This, subject to the provisions of the law/regulation permitting such terms of office as stated.

The terms determined in the decision of the General Meeting of Shareholders on the entry into effect of the terms of office and employment, as stated above, were fulfilled on July 29, 2019, including the approval by the Supervisor of Banks and the terms stated by her (hereinafter: "date of entry into effect of the terms of office").

Until date of entry into effect of the terms of office, the Chairman of the Board continued to receive compensation as a regular Director, according to the Companies Regulations (Rules regarding compensation and reimbursement of expenses to an external Director), 5760-2000, and with the Bank's compensation policy. Following the entry into effect of the terms of office, the Chairman of the Board received the compensation to which he is entitled since date of the beginning of his office, net of the amounts that had been received by him as Director's compensation, as stated.

(b) **Updating of the terms of office – March 2020.** Under the discussions on the compensation policy for officers, and within the framework of the examination of all aspects relating to compensation at the Bank, while making a comparative examination of the practice existing in the banking sector. On March 18, 2020, following approval by the Compensation Committee and by the Bank's Board of Directors, the Bank's General Meeting of Shareholders approved the updating of the terms of office of the Chairman, as follows:

(1) For the undertaking by the Chairman for a non-competition period, including his undertaking not to act during the non-competition period as Director of or provide services or consultation to a banking or financial institution, which is a significant competitor of the Bank, the Chairman of the Board would be entitled to a non-competition payment in an amount equal to one half of the total annual compensation applicable to the office of the Chairman. The said payment for non-competition would be paid at the end of the non-competition period, subject to compliance by the Chairman with his undertaking for a non-competition period.

(2) To the extent that the permitted maximum level under the Compensation Law, including Section 2(b) of the Law, with the averaging of the awards granted to employees of the lowest compensation level, shall increase in relation to the maximum level applying at date of approval for the first time of the terms of office of the Chairman by the general meeting of shareholders, which amounted to approx. NIS 3,010 thousands (which does not include payments and provisions for pension and severance pay according to the Law) – the amount of the annual compensation and the amount of deposits with severance pay and provident funds as stated in the terms of office of the Chairman, shall increase pro-rata with the rate of increase of the existing maximum level.

(c) **Terms of office approved in August 2022.** Following the Amendment dated April 10, 2022, to Proper Conduct of Banking Business Directive No. 301A – "Compensation policy of a banking corporation" ("the Directive") as relating to the compensation of the Chairman of the Board of Directors of a banking corporation having no core controlling interest ("the amendment to the Directive"), on May 30, 2022, the Bank's Board of Directors, following approval by the Compensation Committee dated May 22, 2022, approved the terms of office of the Chairman of the Board, as detailed below:

1. Period of office – the terms of office apply until the end of the period of his office as Chairman of the Board and as a Director, on December 11, 2023.
2. Scope of office – the scope of office amounts to 100% as active chairman of the board and according to the requirements of the Bank. The Chairman is not permitted to engage in any other paid occupation, unless obtaining in advance the consent of the Board of Directors.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

3. Services of the Chairman of the Board – the Chairman will continue and provide service as Chairman of the Board in return for the issue to the Bank of a VAT invoice. All tax payments and other compulsory payments as required by law in respect of any payment or benefit received by him according to his terms of office shall be borne by the Chairman. To the extent required, VAT under the law shall be added to any payment or right due to the Chairman in accordance with his terms of office, and the Bank would be entitled to require the Chairman to issue to the Bank a VAT invoice and any other required confirmation with respect to such a payment, including in respect of the level of withholding tax.
4. Consideration –
   - For his services as Chairman of the Board, the Chairman is entitled to an annual consideration of NIS 2.9 million, with the addition of the amounts stated in subsection 5 below, with the addition of VAT ("the annual consideration"). Regarding parts of a year, the Chairman is entitled to a proportionate part of the annual consideration. It is clarified that the said amount would be payable in full for the year 2022.
   - The annual consideration will be linked in full on a current basis to the rise in the Consumer Price Index ("CPI"). The basic CPI for updating the annual consideration is the CPI for March 2022, as published on April 15, 2022 ("basic CPI"). In case of a decline in the CPI, the annual consideration amount will not be reduced, but it will not continue to rise until such time that the CPI reaches a higher level than that of the most recent CPI to which the annual compensation had been adjusted, and provided that the overall annual compensation (excluding substitute payments by law) does not exceed the maximum amount according to Section 2(b) of the Compensation Law.
5. Substitute payments by law – as part of the annual consideration, as stated in subsection 4 above, the Chairman will be paid an additional amount in the total sum of NIS 430,157, with the addition of VAT, as a substitute for severance pay, provident fund contributions and work incapacity insurance (to which the Chairman is not entitled not being an employee of the Bank), and against depositing this amount by the Chairman with relating funds as self-employed. With respect to parts of a year, the Chairman is entitled to a proportionate part of the substitute payments by law. The substitute payments by law are linked to the CPI in accordance with subsection 4 above.

   The substitute payment amount has been determined according to the rates of 8.333% for severance pay and 6.5% for provident contributions and work incapacity, which according to estimates of the Bank and accepted employment terms, the Bank would have been required to provide for/deposit had the Chairman been engaged as an employee.

   The Bank is entitled to pay the overall annual consideration to the Chairman (the annual consideration including the substitute payment by law) in twelve monthly installments, at the beginning of each calendar month in respect of the previous month.
6. Additional terms – the Chairman is entitled to ask for the reimbursement of travel expenses/ expenses of use of private vehicle of the Chairman, and/or home telephone expenses and/or a mobile phone put at his disposal, all as accepted at the Bank, and provided that the total annual cost to the Bank shall not exceed the annual consideration (excluding the substitute payment amount by law).
7. Reimbursement of expenses – the Chairman is entitled to the reimbursement of reasonable out-of-pocket expenses related to the fulfillment of his duties, in accordance with the accepted practice at the Bank, including foreign travel expenses, subject to the provisions of Section 13A(b)(3)(e) of the Directive. No maximum amount is prescribed for the total amount of reimbursement to which the Chairman is entitled.
8. Additional rights – the Chairman would continue to be entitled to exemption from the duty of care, to officers' liability insurance and to a commitment in advance to indemnification, as the practice is for Officers of the Bank.
9. Additional commitments of the Chairman - a cooling-off and non-competition period of six months with no additional payment shall apply to the Chairman, beginning with the date of termination of his office, during which, the Chairman will not engage in any way whatsoever, in the management of a banking or financial institution competing with the Bank, and also will not act as Director or provide services or consultation to a banking or financial institution, being a significant competitor of the Bank during the non-competition period, unless he obtains the consent of the Bank, additionally, the Chairman is committed to maintain confidentiality for an unlimited period.
10. According to the Compensation Law – to the extent that the annual consideration due to the Chairman, excluding substitute payments by law, as stated in Item 5 above, exceeds the maximum amount allowed under Section 2(b) of the Compensation Law, relevant to a particular year ("the deviation"), the amount of the deviation would be offset against the annual consideration due to the Chairman.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

On August 2, 2022, the Bank's general meeting of shareholders approved the terms of office as above stated, and the amendment of the compensation policy for Officers, respectively.

G. **Compensation for the officiating President & CEO and the former President & CEO**

Terms of office and engagement of the officiating President & CEO. The officiating President & CEO started in office on July 9, 2023. A General Meeting of Shareholders held on August 16, 2023, resolved to approve the terms of office and engagement of the President & CEO, applying as from July 9, 2023.

The terms of engagement had been formed according to the Compensation Law, the Officers' compensation policy, the Companies Law and Directive No. 301A. The President & CEO is engaged in a fulltime position and is not entitled to engage in any additional paid occupation, unless he had obtained the Board of Directors' prior consent. The terms of engagement of the President & CEO are in effect for an indeterminate period, each party having the right to inform the other party of the termination of the engagement, which would take place at least six months following the date of the said notice (hereinafter: "the prior notice period"). During the prior notice period, the President & CEO will continue to perform his duties in a full and proper manner, unless the Bank decides to forego his work in effect during the prior notice period, in whole or in part, continuously or intermittently. To the extent that the President & CEO continues to work during the prior notice period, he would be entitled to the monthly salary and to the related benefits according to the terms of engagement. In the event that the Bank decides not to continue engaging the President & CEO during the prior notice period, he would be paid the total amount of the compensation due for the prior notice period, to which he would have been entitled if he would have continued in office as President & CEO until the end of the prior notice period.

In consideration for the fulfillment of his duties, the President & CEO is entitled to a monthly salary of NIS 246,075, gross. The monthly salary is linked to the rise in the CPI, as determined by the engagement terms. At his discretion, the President & CEO may request that his monthly salary would be updated, subject to required changes and adjustments to the related benefits, in whole or in part, as stated in the engagement terms, so that an increase or decrease in his monthly salary, as the case may be, shall come on account of a parallel increase or decrease, as the case may be, in the related benefits, and vice versa, and subject to any law and to no change occurring in the maximum amount of the fixed compensation. As of date of approval of the engagement terms, the maximum fixed annual compensation of the President & CEO is the amount of NIS 3,059 thousand per year, excluding payments and provisions made by the Bank for severance pay, provident fund and loss of work ability, as required by law. The maximum amount of the fixed amount of the compensation is linked to the CPI.

The President & CEO is entitled to paid vacation days, sick leave, convalescence pay, a suitable motor vehicle, social benefits (pension/managers' insurance arrangements, provident and/or pension funds, including provident; further education fund, loss of work ability insurance), reimbursement of certain expenses and additional benefits. At the end of his tenure of office for whatever reason, the President & CEO would be entitled to severance pay on the basis of his most recent monthly salary, or to the funds and rights accumulated in his favor according to the pension arrangement, the higher amount of the two, in respect of the full period of his employment at the Bank. The President & CEO is entitled to request to make changes in the related benefits, as stated above, and everything subject to changes and adjustments in other related benefits, as stated, where required, and subject to the maximum fixed amount of compensation.

With respect to the President & CEO's obligation, not to be employed or to provide services or advice to a banking corporation or financial body that is a significant competitor of the Bank for a period of six months from the date of terminating his service, the President & CEO will be entitled to a payment of six monthly salaries, which will be paid at the end of the non-competition period, subject to compliance with the non-competition obligation. The portion exceeding four salaries will be considered variable compensation and will be subject to the provisions prescribed in this regard in the compensation policy. It is noted that on February 28, 2024, the Compensation Committee resolved, as an immaterial change in the terms of engagement and office of the President & CEO, that the payment with respect to the no-competition period shall be five monthly salaries with no change in the duration of the no-competition period, which remains six months (and accordingly, the total allowance included in the financial statements of the Bank amounts to five monthly salaries).

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

Subject to compliance with the minimum conditions determined by the compensation policy for officers for return on equity and capital adequacy ratios, the President & CEO would be entitled to an annual award dependent upon performance, of up to two monthly salaries, derived from the results of the Bank according to the group indices and the relating goals, as determined for that year for officers of the Bank, according to the compensation policy, as stated. In addition, the Compensation Committee and the Board of Directors are entitled to grant to the President & CEO a qualitative annual award, not to exceed three monthly salaries, if they find, at their discretion, that reasons exist justifying the granting of an annual award to the President & CEO, as stated, even though the conditions for the granting of an annual award dependent on performance had not been attained. Entitlement to the said awards is subject to the fact that the permitted maximum amount according to the Compensation Law (including Section 2(b) of the Law), averaged by the awards granted to employees receiving the lowest amount of compensation, permits the payment of such an award, and the amount of the award would be cut down to the permitted level of the maximum amount, as stated.

The annual award for 2023. In respect of 2023 the President & CEO, was entitled to an annual award in accordance with the terms of engagement and office, and also to a proportionate part in respect to his period of service during 2023 as Executive Vice President at the Bank, according to the award plan for members of the Bank's Management and the Internal Auditor (2023-2025). Notwithstanding the above, in view of the maximum amount permitted by the Compensation Law (including Section 2(b) of the Law), it was not possible to grant to the President & CEO an annual award in respect of 2023.

Terms of office and engagement of the former President & CEO. The former President & CEO acted in this office from December 2, 2019 and until July 9, 2023. A special General Meeting of Shareholders held on March 18, 2020, resolved to approve the terms of office and engagement of the President & CEO, applying as from December 2, 2019, with the Bank and the President & CEO settling the account on the amounts paid to him in the interim period until date of approval by the Bank's General Meeting of Shareholders, as compared with amounts according to the terms of office and engagement detailed below, including by way of offsetting.

The terms of engagement had been formed according to the Compensation Law, the Bank's compensation policy, the Companies Law and Directive No. 301A. The President & CEO is engaged in a fulltime position and is not entitled to engage in any additional paid occupation, unless he had obtained the Board of Directors' prior consent. The terms of engagement of the President & CEO are in effect for an indeterminate period, each party having the right to inform the other party of the termination of the engagement, which would take place at least six months following the date of the said notice (hereinafter: "the prior notice period"). During the prior notice period, the President & CEO will continue to perform his duties in a full and proper manner, unless the Bank decides to forego his work in effect during the prior notice period, in whole or in part, continuously or intermittently. To the extent that the President & CEO continues to work during the prior notice period, he would be entitled to the monthly salary and to the related benefits according to the terms of engagement. In the event that the Bank decides not to continue engaging the President & CEO during the prior notice period, he would be paid the total amount of the compensation due for the prior notice period, to which he would have been entitled if he would have continued in office as President & CEO until the end of the prior notice period. Accordingly, an amount of NIS 941 thousands, in lieu of an advance notice has been paid to the President & CEO in respect of the proportionate part of the advance notice period during which he had not been employed.

In consideration for the fulfillment of his duties, the President & CEO is entitled to a monthly salary of NIS 225,000, gross. The monthly salary is linked to the rise in the CPI, as determined by the engagement terms. At his discretion, the President & CEO may request that his monthly salary would be updated, subject to required changes and adjustments to the related benefits, in whole or in part, as stated in the engagement terms, so that an increase or decrease in his monthly salary, as the case may be, shall come on account of a parallel increase or decrease, as the case may be, in the related benefits, and vice versa, and subject to any law and to no change occurring in the maximum amount of the fixed compensation. As of date of approval of the engagement terms, the maximum fixed annual compensation of the President & CEO is the amount of NIS 2,802 thousand per year, excluding payments and provisions made by the Bank for severance pay, provident fund and loss of work ability, as required by law. The maximum amount of the fixed amount of the compensation is linked to the CPI.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

The President & CEO is entitled to paid vacation days (with no accumulation save as detailed below), sick leave, convalescence pay, a suitable motor vehicle, social benefits (pension/managers' insurance arrangements, provident and/or pension funds, including provident; further education fund, loss of work ability insurance), reimbursement of certain expenses and additional benefits. At the end of his tenure of office for whatever reason, the President & CEO would be entitled to severance pay on the basis of his most recent monthly salary, or to the funds and rights accumulated in his favor according to the pension arrangement, the higher amount of the two. The President & CEO is entitled to request to make changes in the related benefits, as stated above, and everything subject to changes and adjustments in other related benefits, as stated, where required, and subject to the maximum fixed amount of compensation.

The Bank may be entitled to require the President & CEO to abide by a cooling-off and no competition period of up to six months following the date of termination of his office, in a way that he would not be engaged or provide services to a banking corporation or to a financial institution, which is a significant competitor of the Bank.

Subject to compliance with the minimum conditions determined by the compensation policy for officers for return on equity and capital adequacy ratios, the President & CEO would be entitled to an annual award dependent upon performance, of up to two monthly salaries, derived from the results of the Bank according to the group indices and the relating goals, as determined for that year for officers of the Bank, according to the compensation policy, as stated.

In addition, the Compensation Committee and the Board of Directors are entitled to grant to the President & CEO a qualitative annual award, not to exceed three monthly salaries, if they find, at their discretion, that reasons exist justifying the granting of an annual award to the President & CEO, as stated, even though the conditions for the granting of an annual award dependent on performance had not been attained. Entitlement to the said awards is subject to the fact that the permitted maximum amount according to the Compensation Law (including Section 2(b) of the Law), averaged by the awards granted to employees receiving the lowest amount of compensation, permits the payment of such an award, and the amount of the award would be cut down to the permitted level of the maximum amount, as stated.

In November 2020, the Bank's Compensation Committee approved an immaterial change in the terms of engagement of the President & CEO, according to Section 272(d) of the Companies Law, permitting the President & CEO to accumulate vacation days unutilized by him in 2020, so that they would be redeemable at the end of his engagement period or during that period. The Committee considers that this change agrees with the parameters determined by the Bank's compensation policy regarding an immaterial change, and that it does not lead to a deviation from the maximum level of the total compensation permitted in the case of the President & CEO under the Compensation Law.

The annual award for 2021. For the year 2021, and according to the terms of office and employment of the former President & CEO, as detailed above, the former President & CEO was entitled to an annual award equal to two monthly salaries. However, in view of the maximum amount permitted by the Compensation Law (including Section 2(b) of the Law), the award has been reduced to an amount of approx. NIS 211 thousand, comprising approx. 0.9 monthly salaries.

The annual award for 2022. For the year 2022, and according to the terms of office and employment of the former President & CEO, as detailed above, the former President & CEO was entitled to an annual award equal to two monthly salaries. However, in view of the maximum amount permitted by the Compensation Law (including Section 2(b) of the Law), the award has been reduced to an amount of approx. NIS 169 thousand, comprising approx. 0.7 monthly salaries.

The annual award for 2023. In respect of 2023, and in accordance with the engagement terms of engagement and office of the former President & CEO, as detailed above, the former President & CEO was entitled to an annual award. Notwithstanding the above, in view of the maximum amount permitted by the Compensation Law (including Section 2(b) of the Law), no annual award has been granted to the former President & CEO in respect of 2023.

H. The Bank has a commitment to pay directly to subordinated debt notes holders of the consolidated subsidiary Manpikim Discount Bank Issues Corporation Ltd. upon the debentures’ maturity, the amounts of the principal plus accrued interest and linkage differentials. The undertaking is for the repayment of subordinated debt notes, the proceeds of which were deposited with the Bank. The said liability, as at December 31, 2023, amounted to NIS 11,701 million (as at December 31, 2022 – NIS 11,089 million).

I. The Bank and Mercantile Discount Bank have commitments towards the Tel-Aviv Stock Exchange and towards the "Ma’of" clearing house as mentioned in Note 26 C 3 and Note 26 C 4.

J. Investee companies of the Bank are included in the framework of the undertaking granted by the Bank to International VISA Organization and MasterCard Worldwide organization as stated in Note 26 C 8 sections a and b. Investee companies of the Bank have also been included.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

K. As to indemnification for interested and related parties and for details as to arrangements for insurance, exemption and indemnification of Directors at the Bank or persons appointed by the Bank as Directors of certain subsidiaries, see Note 26 C 6, sections J-O and section O below.

L. **Compensation of expert directors.** Following approval by the Compensation Committee, the Board of Directors approved on May 16, 2018, the payment of annual compensation and compensation for participation in meetings to external directors and other directors officiating and who would officiate at the Bank (excluding the Chairman of the Board), and who are expert directors, as defined in the Compensation Regulations, in an amount that does not exceed the "maximum amount for an external expert director" stated in the fourth addendum to the Companies Regulations (Rules for Compensation And Expenses Payable To An External Director), 5760-2000, according to the grade of the Bank (hereinafter: "the updated compensation"). A director who is not an expert director shall continue to receive annual compensation and compensation for participation in meetings, as stated in Note 35 L to the financial statements as of December 31, 2017.

The said updated compensation shall be paid to an expert director, as stated, starting with the date of beginning of office of a new external director at the Bank, or the date of renewal of office of an officiating external director, the earlier of the two. The said approval was granted according to Regulation 1A of the Relief Regulations (Relief for Transactions with Interested Parties), 5760-2000.

M. **Terms of transactions with interested and related parties.** All business with interested and related parties including non-banking transactions (such as in the insurance field), has been transacted in the ordinary course of business and under terms similar to those of transactions with parties that are not related to the Bank and to its consolidated subsidiaries. Interest charged and interest paid for balances with interested and related parties are at the regular rates at the ordinary course of business with parties that are not related to the Bank.

N. For details on the compensation policy for officers of the Bank, see Note 23 D and E. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2020-2022), see Note 23 G. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2023-2025), see Note 23 G.

O. **Directors and officers liability insurance.** In March 2023, pursuant to the approval of the Compensation Committee and the Board of Directors, the Bank took out a collective policy for the insurance of directors and officers, who are currently serving with the Bank or who will serve with it from time to time, including for their service on behalf of the Bank as officers with any other company which is held by the Bank (hereinafter: “the Insurance Policy”), with this being according to Regulation 1B1 of the Companies Regulations (Reliefs in Transactions with Interested Parties), 5760-2000, and according to the Israel Securities Authority’s position paper 101-21 (as last updated in August 2020) and with the provisions of the Bank’s compensation policy, as approved by the general meeting of the Bank’s shareholders on March 18, 2020 subject to that stated below.

The Insurance Policy is in effect from April 1, 2023 through March 31, 2024 (hereinafter: “the Insurance Period”). The liability limit insured within the framework of the Insurance Policy is US$175 million per claim and in aggregate for the Insurance Period. The cost of the premium that was paid for the Insurance Policy for the Insurance Period amounts to approx. US$2.89 million. In the event of a claim against any of the officers, no deductible shall be applicable to the officers themselves. The Bank will bear the deductible of US$500 thousand per event; for claims relating to securities (Entity-SEC), the Bank will bear a deductible of US$1 million per event, while, for claims relating to labor relations (Entity-EPL), the Bank will bear a deductible of US$500 thousand per event, except for claims in the United States and Canada – US$1 million.

P. **Award to the CEO of ICC.** On September 14, 2023, the Board of Directors of ICC approved an update to the compensation plan for the CEO of the company, which, inter alia, includes compensation, the total amount of which will be derived from the value of sale of ICC within the framework of the separation of ICC from the Discount Group ("the sale award"). The Bank, being the controlling shareholder in ICC, has committed to indemnify the company in respect of the sale award (in an amount that is not material to the Bank).

36. Credit Card Activity

A. **Existing arrangements between credit card companies and between such companies and the banks**

1. **Arrangements between credit card companies – VISA Cards.** At the beginning of September 2001, ICC, The First International Bank ("FIBI"), Israel Discount Bank, Bank Leumi Le’Israel B.M. and Leumi Card (hereinafter together - "the appellants") filed applications with the Competition Tribunal for the approval of a binding arrangement between them, concerning the cross clearing of VISA cards. Over the years, the Tribunal has granted the Appellants provisional and temporary permits for the charging of issuer fees and commissions at agreed rates. Concurrently, the validity of the general exemption has been extended from time to time.

36. Credit Card Activity (continued)

A tri-party Cross Clearing agreement. On October 30, 2006, the Competition Commissioner (hereinafter: "the Commissioner"), the credit card companies and the banks owning the credit card companies entered into an agreement for the Cross Clearing of Visa and MasterCard credit cards (hereinafter: "the Agreement"). The agreement came into effect upon the granting of a provisional permit by the Competition Court. This agreement has been extended from time to time by the Tribunal.

Amended cross clearing arrangement - reduction of the issuer commission rate. The Competition Tribunal approved on March 7, 2012 a new compromise arrangement, to which had been attached an amended cross clearing arrangement. The compromise agreement determines, among other things, that the issuer commission of 0.7% is the proper commission for the compromise agreement and that the reduction of the issuer commission to 0.7% shall be applied gradually as detailed in the amended arrangement.

The five stages, as detailed in the agreement, were implemented on the due dates. From July 1, 2014 and until the end of the agreement period (December 31, 2018), the issuer commission decreased and amounts as of December 31, 2018 to an average rate that did not exceed 0.7%.

Local clearing exemption terms. On April 25, 2018, the Competition Commissioner published his decision to exempt, under certain terms, the cross clearing arrangement between the credit card companies. The cross clearing arrangement between the credit card companies was approved in March 2012 by the Competition Tribunal in an application to approve a restrictive arrangement. The Tribunal adopted a compromise agreement that was drawn up at the time between the three credit card companies and the Commissioner ("the Amended Clearing Arrangement").

The present exemption was granted until December 31, 2023, subject to the terms set out in the decision. The exemption granted in respect of the cross-clearing agreement for IsraCard credit cards (see below) is also expected to expire on this date. Taking into consideration the "Iron Swords" war and the state of emergency that has been declared in Israel, on October 17, 2023, all clearing agents jointly applied to the Competition Authority for a temporary extension of the exemption. An extension as aforementioned was granted until March 31, 2024. On January 9, 2024, all the clearing agents submitted a new application to the Competition Authority for approval of the agreement.

Clearing exemption terms. The exemption's provisions apply both to the agreement in principle signed between the banks and the credit card companies on May 9, 2007 and also to its appendices and to the changes thereto. Part of the exemption provisions apply also to a clearing agent who is not an issuer (or vice versa) who joins the agreement, thereby being considered a credit card company according to the definition stated therein.

New players becoming parties to the agreement in principle. Credit card companies must join to the agreement on an equal basis and at no cost. The credit card companies are to place at the disposal of a New Player all the information that it requires in order for it to become a party to the agreement and for it to operate thereunder, as well as perform reasonable adjustments, to the extent required so as to enable a New Player to become a party to the agreement and to operate according to its provisions.

Prohibition on market power being exploited by an issuer or by a clearing agent to the detriment of competitors. An issuer with Wide-Ranging Activity may not discriminate between clearing agents or between customers according to the identity of the clearing agent of the trading house at which the transaction was done, and may not take any action whose intention or likely consequence is such discrimination.

A credit card company that is a clearing agent with Wide-Ranging Activity may not discriminate between issuer's and may not take any action whose intention or likely consequence is discrimination between issuers. The provision prescribes that differences in the terms of engagement resulting from differences in the payments that the clearing agent is required to make to the issuer by law for different types of transactions will not be deemed to be discrimination.

A credit card company that is a clearing agent with Wide-Ranging Activity or an issuer with Wide-Ranging Activity may not link the clearing of transactions using debit cards at a trading house to an engagement with that trading house within the framework of its activity as an issuer.

Prohibition on market power being utilized against a trading house. A credit card company is prohibited from being a party to an accord whose intention or likely consequence is to link the clearing of a debit card that is issued by a party to the agreement to the clearing of a debit card that is issued by an entity that is not a party to the agreement. In addition, a credit card company may not link different types of transactions that are conducted using debit cards that it clears.

Prohibiting a credit card company that is a clearing agent with Wide-Ranging Activity from being a party to accords with a trading house that prevent the trading house or that restrict the trading house from granting discounts to its customers, which depend on the payment means used by the customer.

36. Credit Card Activity (continued)

Daily accounting – Prohibition of delaying the transfer of the payment from the issuer to the clearing agent. With effect from July 1, 2021, the transfer of funds between an issuer and a clearing agent, for transactions executed in a single payment, will be carried out no later than the day after the date of the transaction being transmitted from the trading house.

The changes in the exemption decision. The main change in the new decision is the provision that requires daily clearing. In addition, the new terms also contain relief, which includes removal of the sweeping prohibition on exclusive agreements with a trading house and on the granting of designated discounts.

As stated, the grant of the exemption was conditioned on deferred charge transactions being transferred for clearing on a daily basis. This condition went into effect on July 1, 2021, and applies to single payment transactions. In such transactions, the issuer will be obliged to transfer the consideration to the clearing agent no later than the day after the date of the transaction being transmitted from the trading house. The condition will not apply to installment transactions.

The granting of the exemption is conditional upon the transition to the daily clearing of deferred debit transactions. This condition became effective on July 1, 2021, and applies to a single payment transaction. In the case of such transactions, the issuer is required to transfer the consideration to the clearing agent no later than one day following the date of transmission of the transaction by the trading house. This condition does not apply to installment transactions.

Reduction of the cross-commission rate. The Governor of the Bank of Israel announced on February 25, 2018 a new outline for the reduction of the cross-commission in deferred charge transactions, from the rate of 0.7% at that date to a rate of 0.5%, this in five phases.

The cross commission level under the outline has been calculated based on the methodology that was approved in 2006 by the Competition Court, as referred to above.

The reduction in the issuer's fee to a level of 0.5% was implemented in stages. From January 1, 2023, the issuer's fee stands at an average rate that does not exceed 0.5%.

Furthermore, an outline was established for the reduction of the cross-commission regarding immediate charge transactions, from the rate of 0.3% at that date, to a rate of 0.25%, in two phases. The aforementioned reduction was carried out in stages. From January 1, 2023, the commission stands at an average rate that does not exceed 0.25%.

2. **Exemption for a restrictive agreement for the clearing of Isracard cards.** On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement, under which ICC was granted a non-exclusive license for the clearing of IsraCard credit card transactions in Israel.

   On May 16, 2018, ICC received an exemption for a restrictive agreement for clearing Isracard cards, further to earlier exemptions granted in this matter. This exemption is granted following the extension of the agreement between ICC and Isracard with regard to clearing "Isracard" branded cards for a further two years, i.e., through May 15, 2020. The exemption was granted for the duration of the agreement and has been extended from time to time. The current exemption is valid until March 31, 2024.

3. **A joint issuance agreement between ICC and FIBI.** On December 29, 2020, ICC and FIBI signed a joint credit cards' issuing agreement for customers of the bank. The agreement entrenches the parties' obligations and rights in connection with the issuing of credit cards and the considerations to which the parties are entitled from the joint issuing operations. The agreement states, among other things, a compensation mechanism based on the volume of cards being issued. This agreement replaces previous agreements that were signed between the parties and will be valid until December 31, 2024. The agreement will be automatically renewed for additional periods of two years each.

   A joint issuance agreement between ICC and Discount Bank. On June 13, 2019, ICC and the Bank signed an agreement for the joint issuance of brand name charge cards of "VISA" and "MasterCard", to be operated by ICC. At the same date, Diners signed an agreement for the joint issuance of brand name charge cards of "Diners", to be operated by it. The agreements include, inter alia, mechanisms for the distribution of income, which take effect retroactively as from January 1, 2019, as well as a compensation mechanism for the Bank for attainment of goals. These agreements were valid until December 31, 2022. At this stage, the joint activity of ICC and Diners with the Bank and with MDB continues according to the provisions of the agreements, which were in effect until December 31, 2022, while the parties have started negotiations for the renewal of the issuing agreements. According to the Regulations enacted under the "Strum Law", fixation applies to the income distribution mechanism between ICC and Discount, and the distribution of income shall be made according to the issue operating agreement that was in effect on January 1, 2022 until the end of three years from date of separation, or until the end of five years from date of publication of the Regulations (January 30, 2023), whichever is later.

36. Credit Card Activity (continued)

4. **Issuance agreements with banks participating in the arrangement.** ICC is engaged with most banks in Israel by agreements for the joint issuance and operation of the issue of charge cards. According to these agreements, ICC and/or the bank issue charge cards to customers of that bank, the operation of which is performed by ICC. According to the agreements, a mechanism was determined for the distribution of income between ICC and the banks for the card operation (including: income derived from transaction in Israel and abroad, and service commission charged to card holders). Also determined are the operation fees to which ICC would be entitled for certain operations, such as extending bank credit by means of the card. Under certain of the agreements the bank enjoys an increase in its share of the income based on the volume of the joint operations and/or the quantity of cards issued according to the agreement. Moreover, certain of the agreements include awards dependent on attainment of goals.

   The banks were awarded the exclusive discretion on the issue of the credit card, its cancellation, suspension, the number of credit cards to be issued (with no commitment for a minimum number of cards), including the amount of the credit facility and the interest rates charged. Among other things, the agreements also state that the banks would be responsible for everything related to credit risk, while ICC on its part would be responsible for risks of misuse of the credit card by the customer. The agreements further regularize the manner of use of information derived from the use of credit cards and the ownership of the said information, as well as the manner of management of the commercial relations with the credit organizations.

   The agreements are signed for a period of several years and certain of them contain provisions on the extension thereof for an additional period.

B. 1. **The separation of ICC.** On January 31, 2017, the Increase in Competition and Reduction of Centralization in the Israeli Banking Market Law (Legislation amendments), 5777-2017, was published on the Official Gazette ("the Law").

   Within the framework of implementation of the Law, in the first stage, the credit card companies, IsraCard and MAX (formerly LeumiCard) were separated from Hapoalim Bank and Bank Leumi, respectively, due to the fact that they held assets of a value exceeding 20%, and therefore defined as "a bank with Wide-Ranging Activity". Accordingly, at that stage, the Bank is under no duty to sell ICC.

   With respect to ICC, on January 31, 2021, a period of two years started, which ended on January 31, 2023, during which, the Minister of Finance, with consent of the Governor of the Bank of Israel and approval by the Finance Committee of the Knesset, was empowered to instruct the separation of ICC from Discount Bank upon existence of certain terms stated in Section 11B(d) of the Banking Law (Licensing), 5741-1981 ("the Banking Law").

   According to the provisions of Section 12(b)(3) of the Law, a committee had even been established, among the duties of which was recommending to the Minister in the matter of applying his authority to enforce the duty to sell ICC, as stated. On December 21, 2022, the committee published its recommendation to the Minister of Finance, as accepted by the majority of the committee members, which stated the position that the Minister should apply the said authority. The recommendation document contained also the minority opinion of the Supervisor of Banks, who was not a party to the opinion of the other committee members. On January 18, 2023, after obtaining the consent of the Governor of the Bank of Israel, the Minister applied to the Chairman of the Finance Committee of the Knesset, requesting approval of the Committee to the draft Banking Regulations (Licensing)(A bank with Wide-Ranging Activity), 5783-2023. As part of the application, the Minister referred also to the possibility of acquisition of a charge card company by institutional bodies, and noted that on the background of developments in the market and the provisions of Section 10 of the Law, he had instructed the formation of a designated team at the Ministry of Finance to study this issue.

   On January 30, 2023, the Finance Committee of the Knesset approved the Banking Regulations (Licensing) (A bank with Wide-Ranging Activity), 5783-2023, ("the Regulations").

   According to the Regulations, the Bank is bound to sell the means of control of Israel Credit Card Company Ltd., held by it, within a period of three years from the effective date (date of publication of the Regulations in the Official Gazette), or until the end of four years in certain circumstances, to the extent that a public offer outline would be decided upon. Furthermore, the provisions stated in the Law would apply with respect to the sale.

   In addition, the following instructions, inter alia, apply:

   - During the period from the effective date and until the end of a period of the later of five years or three years from date of separation, the Bank has to conduct the operation of issue of charge cards issued by it, by means of an operating company, and to enable it to be a party to the charge card agreement;
   - As from the end of one year from the effective date and until the end of a period of the later of five years or three years from date of separation, the Bank is not permitted to conduct by means of one operating company, the issue of more than 52% of the total new credit cards issued to Bank customers;

36. Credit Card Activity (continued)

- A fixed mechanism for the distribution of income derived from the issue operation of charge cards and from use of charge cards by customers, between the Bank and the charge card company, so that the said distribution of income would be in accordance with an agreement signed by the parties in 2022;
- Restriction to approaches made to customers regarding renewal of credit cards.

It is noted that the restrictions relating to the duty to enable the credit card company to become a party to the agreement, the forbiddance to conduct through one operating company the issue operation of more than 52% of total new credit cards, and restrictions on approaches to customers regarding the renewal of credit cards, apply also to some of the other banks.

The Regulations entered into effect on January 31, 2023. It is noted that at that date the Minister of Finance issued an open call for the public's positions in which he announced, as part of his decision in the matter of amending the definition of a bank with Wide-Ranging Activity, the formation of a team at the Ministry of Finance headed by the Officer in Charge of Budgeting, the Legal Counsel of the Ministry of Finance and the Commissioner of the Capital Market, Insurance and Savings, for studying the issue of the differentiation existing in the Law between the acquisition of a charge card company from a bank with Wide-Ranging Activity (primary acquisition) and the acquisition of a charge card company from an entity which had purchased such a company from such a bank (secondary acquisition), and whether it is just and equitable to leave such a differentiation intact. The question of the possible effects of large institutional bodies controlling charge card companies is also supposed to be studied.

On May 11, 2023, the team for the examination of the holdings by institutional bodies of charge cards companies ("the Team") published its recommendations.

The central recommendation of the Team is the amendment of Section 10 of the Law, whereby a large institutional body shall no longer be debarred from acquiring means of control of a charge card company from a bank with wide-ranging activity (applying also to a primary acquisition). The practical significance of this recommendation, if implemented, is that the Bank would be able to sell its holdings in ICC also to a large institutional body. In addition, as a complementary act, the Team, inter alia, recommended a clear structural separation between the charge card company and the institutional body holding it, as well as stating restrictions in respect of material operational interfaces between institutional bodies and banks. A Memorandum for the amendment of section 10, as stated, was published on November 27, 2023. Within the framework of the published Memorandum, it is also proposed to state that "a bank with Medium-Ranging Activity " – defined in the Memorandum as a bank whose asset value exceeds 5% of the total asset value of all banks in Israel but which does not exceed 10% - shall not be permitted to control a charge card company, subject to transitional instructions, as stated in the Memorandum. At a date proximate to the date of publication of this Report, a Bill for the amendment of the said section has not yet been published.

Following the decision of the Minister of Finance and approval of the Regulations, the Bank has recorded a provision for the balance of taxes due on its share in the profits of ICC, which in accordance with accounting principles, had not been provided for in the past, in the amount of NIS 50 million. The said provision was included in the report for the first quarter of 2023.

The Bank is preparing for effecting the separation, and, inter alia, has retained the services of a foreign investment bank to assist in the process.

Within the framework of a joint distribution agreement with El-Al Company, El-Al was, inter alia, granted a "phantom" type option, entitling it to economic rights in ICC (of a value equal to 8.75% of the appreciation in value of ICC, exceeding the amount of NIS 1,800 million). The option would be exercisable only in the event of sale or issuance of ICC, in accordance with the terms stated in the related agreement, and would be settled in cash. (The equity capital of ICC as of December 31, 2023, amounts to NIS 2,447 million).

According to an assessment in the hands of ICC, the fair value of the "phantom" option (within the meaning of the term in accepted accounting principles), based on data regarding transactions for the acquisition of the credit card companies IsraCard and MAX (being published information only, regarding the agreement, within the framework of which, Harel Investments was expected to acquire all the shares in IsraCard, and the agreement, within the framework of which, CLAL Insurance Enterprises Holdings acquired all the shares in MAX, based on their reports to the public), and on the assumption that ICC will utilize to the options of the distribution of dividends, according to the option agreement, within the framework of the future negotiations to formulate the terms of sale of the holdings in ICC at an amount of approx. NIS 52 million (approx. NIS 37 million after tax effect). ICC recognized in the first quarter of 2023 a liability in respect of the said option. Considering the tax effect and after deduction of the share of the First International Bank in the profit of ICC, the recording of the option in the said amount reduced the net profit of the Bank in the first quarter of 2023 by a net amount of approx. NIS 24 million.

36. Credit Card Activity (continued)

It is emphasized that at this stage, the Bank is in the midst of the primary preparation phases for the separation from ICC, and that decisions with respect to the separation outline have not as yet been taken. This issue relates to a transaction of a scope expected to be significant, where the acquisition price to be determined might be affected by the dynamics in the market, as would exist at the time proximate to the date of the transaction, by the path of development of ICC in comparison to its competitors, by the outline for the execution of the separation, by possible competition between potential buyers and by different macro-economic variables. In light of the abovesaid, the acquisition price might be very materially different from the price of ICC seemingly grossed up in the fair value assessment of the option.

It is noted that at this stage it is not possible to assess the duration of the "Iron Swords" War and its force, and accordingly it is not possible to assess its impact on the sale process, if at all.

2. **Arrangements following the Strum Law.** Following the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Law (Legislation amendments), 5769-2017 ("the Strum Law"), the following arrangements were signed:

(a) **Agreement between the Bank and MAX.** The Bank signed a joint issuance agreement on March 29, 2018, with MAX, based on the commercial understandings reached between the parties. According to the agreement, the Bank would issue credit cards together with MAX as from February 2019 (date of entering into effect of the duty stated in the Law to conduct the issuance operation by means of more than one operating company). Inter alia, the agreement regulates the services to be received by the Bank, the division of responsibility and the manner of settlement between the parties. The agreement was in effect until January 31, 2024. The parties continue to act in accordance with the provisions of the agreement and, at the same time, the parties.

(b) **A joint issuance agreement with Bank Hapoalim.** On November 21, 2018, ICC and Bank Hapoalim Ltd. signed an agreement for the joint issuance and operation of debit cards. According to the agreement, the parties will issue credit cards to customers of Bank Hapoalim, which would be operated by ICC. The agreement determines the distribution of income between the parties, as well as their rights and obligations and further arrangements on the said operation. The agreement will be in effect as from date of signature thereof and until December 31, 2024. Bank Hapoalim is entitled to extend the period of the agreement by means of a written request served to ICC no later than June 30, 2024, while ICC is entitled to inform Bank Hapoalim of its consent within 45 days from date of serving of the application for extension. On March 22, 2022, ICC and Hapoalim Bank signed an agreement updating certain terms stated in the agreement. Furthermore, the power of the joint issue agreement was extended for an additional period of one year, until December 31, 2025.

(c) **Agreement for joint issuance with Bank Leumi.** On August 12, 2018, ICC, Diners and Bank Leumi Le-Israel Ltd. (hereinafter: "Leumi") signed an agreement for the joint issuance and operation of debit card issuance. According to the agreement, the parties would issue to customers of Leumi debit cards operated by ICC. The agreement determines the division among the parties of income and expenses derived from the joint issuance operations, as well as the rights and duties of the parties and additional arrangements relating to the described operations. The period covered by the agreement would be from February 1, 2019 to December 31, 2024 (approx. 6 years). Leumi will be entitled to terminate the period of the agreement one year prior to the date of termination of the said period. The parties will be permitted to agree to extend the period of the agreement by four additional periods of one year each.

C. **Agreement with EL AL Company.** An agreement of principles was signed on December 11, 2018, for a new engagement of ICC with EL AL, on the issuance and operation of brand name credit cards for a period of ten years as from September 1, 2019, with a mutual termination right for each of the parties after seven years ("the engagement period"). An agreement of principles was signed on December 11, 2018, for a new engagement of ICC with EL AL, on the issuance and operation of brand name credit cards.

According to the agreement, all credit cards issued to members of the club will be of the “Fly card” type and will belong to the “Bronze” card family or to the “Premium” card family (as defined in the agreement). These cards will be offered as bank credit cards or as off-banking credit cards. The branded credit cards will confer on their holders a unique value offer through a variety of benefits, depending on the type of card and the scope of activity thereon.

El Al will be obliged to return to ICC an immaterial amount should El Al exercise the early exit right after seven years, or in the event of early termination of the agreement’s term due to a fundamental breach by El Al.

Within the framework of the agreement, inter alia, EL AL was granted a "phantom" option, which would grant it economic rights in ICC (of a value equal to 8.75% of the increase in value of ICC of over a total of NIS 1,800 million) or in Diners (of a value equal to 35% of the increase in value of Diners of over a total of NIS 335 million). The option may be exercised only in the event of sale or share issue of any of the above companies, according to the terms stated in the agreement in this respect, and shall be settled in cash (for additional details, see subsection B 1 above).

36. Credit Card Activity (continued)

Furthermore, EL AL would be entitled to the payment by ICC of current royalties (and under certain terms to increased royalties, dependent on reaching determined operational goals), for the use of the brand name credit cards, and which shall be derived from the various income earned on the brand name credit card operations, comprising the distribution of income between the parties for the cross-commission earned on transactions made by the credit cards, for income on the credit extended to card holders, for card fees charged to the holders and for foreign currency conversion income. Upon fulfilment of certain conditions, El Al will be entitled to continue receiving ongoing royalties even after the end of the agreement's term, in relation to income from credit extended on the cards. It has been agreed that ICC shall pay EL AL a onetime signature award in a total amount of NIS 75 million, payable upon the agreement of principles taking effect (upon fulfillment of the condition precedent, as detailed below).

On date of entry into effect of the agreement of principles, EL AL received an advance payment of NIS 60 million, on account of a part of the above mentioned current royalties, which shall be reimbursed in full during the first seven years of the engagement period, by means of offsetting the amount against the current royalties only. The agreement of principles determines in addition, instructions on the marketing and promotion of sale of the brand name credit cards, including marketing and advertising budgets by ICC all through the period of the engagement. The agreement in principle takes effect upon the fulfillment of certain conditions set out in the agreement.

On September 26, 2019, ICC and Diners signed agreements with Mastercard Europe SA (hereinafter: "Mastercard") on the one part and with EL AL on the other part, as well as on a tripartite agreement with all the parties ("the tripartite agreement"). The tripartite agreement regulates the cooperation with MasterCard in implementing the Fly Card agreement: the issuance of Fly Card credit cards ("Premium" and "Bronze") under the MasterCard brand name and integrated cards under the MasterCard and Diners brand names and other matters. The agreement is in force for a period of ten years as from September 1, 2019, with the option of mutual retirement from the agreement for each one of the parties until December 31, 2026.

In 2022, EL AL transferred the operations of the Frequent Flyer Club, including its assets, to a separate subsidiary.

D. **Joint distribution agreement with Shufersal Company.** On November 2, 2017, ICC and Diners (hereinafter jointly: "ICC") and Shufersal Company Ltd. and Shufersal Finance, Limited Partnership (hereinafter jointly – "Shufersal") signed a memorandum of principles (hereinafter: "the Memorandum of principles") for the issue and operation of off-banking credit cards to customers of Shufersal (hereinafter: "Credit Club" and "the Cards", respectively). The parties introduced the club on January 18, 2018, according to the document of principles.

The Memorandum of principles also states that the parties will act towards the signing of a detailed agreement ("the Agreement") to regulate all matters existing between the parties for the Credit Club, and this within a period of 6 months, while until the date of signing of the detailed Agreement, the Memorandum of Principles would bind the parties.

The Agreement would be in effect from date of signature thereof and until December 31, 2027, such period being extended for additional periods of two years each, unless any of the parties announces his wish not to extend the validity of the Agreement for an additional period, by giving a notice twelve months prior to the termination of each period.

Among other things, the Memorandum of Principles regulates the benefits that would be granted to customers holding the Credit Club cards by the parties to the agreement, provisions on attraction of customers to the Credit Club, providing marketing and advertising budgets by the parties, distribution of costs, and instructions relating to fees charged to card holders. All liabilities applying by law to the issuer shall apply to ICC. ICC would be the exclusive issuer permitted to offer debit cards and loans to customers of Shufersal.

The Memorandum of Principles also regulates the possibility that the cards would be registered under the Bank Identification Number (BIN) of Shufersal, if this is requested by Shufersal and subject to obtaining all relevant approvals and licenses.

The Memorandum of Principles determines the distribution of income between the parties for the cross-commission earned on transactions when using the cards, for the interest bearing credit balances created through the operation of the Credit Club, and for card fees charged to the holders thereof. Card holders would also be charged by Shufersal with monthly membership fees for their membership of the Credit Club, according to determined terms.

Under the Memorandum of Principles, it was determined ICC will pay Shufersal NIS 30 million in connection with the benefits that Shufersal will grant to members of the credit club. It also prescribes that, subject to attaining material goals determined for the operations of the Credit Club, Shufersal would be entitled to two awards of NIS 35 million each, at the end of the fourth and eighth year of the Agreement.

36. Credit Card Activity (continued)

The Agreement also regulates the payments to be made between the parties following the termination of the Agreement, where, as a general rule, in the event that ICC continues to operate the cards until their expiry date, the terms of the Agreement will continue to apply for the distribution of income between the parties, while in the case that ICC discontinues the operation of the cards and these would instead be operated by Shufersal, Shufersal Finance or by a third party, then ICC would be entitled to receive, during a stated period, royalties based on ICC's share in income from the cards in the year preceding the date of termination of the Agreement, and all according to the terms and rates determined in the Agreement.

On April 10, 2022, ICC and Shufersal signed an agreement updating certain terms stated in the agreement. Furthermore, the power of the Joint distribution agreement was extended for an additional period of three years, until December 31, 2030.

E. ICC is engaged in the operation of credit cards of brands registered in the name of the international organizations VISA International, MasterCard Worldwide Organization and Diners Club International, and is connected to each of these international organizations by a set of agreements. The license to operate under the VISA and MasterCard brands has no time limit and is not exclusive. The license is subject to compliance with the directives of these organizations. Validity of the concession for the exclusive operation in Israel of the Diners Club brand, granted to ICC by Diners Club International is in effect until December 31, 2029.

F. Acquisition of the minority interest in Diners. In December 2015 ICC acquired all the holdings of Dor-Alon and Blue Square in Diners (49%) (collectively: the "Sold Shares"), so that upon conclusion of the transaction ICC holds all the rights (100%) in Diners. A dispute has arisen between the parties for the entitlement of the Sellers to additional consideration subjected to the conditions precedent. The parties referred to mediation proceeding in the matter, but the mediation proceedings were not successfully concluded.

A monetary action was filed on September 24, 2019 with the Tel Aviv District Court against ICC, in which the Court is asked to order ICC to pay to Dor-Alon and Blue Square an amount of approx. NIS 21 million. On February 9, 2020, ICC submitted a statement of defense for this action. Concurrently with the submission of the statement of defense, ICC submitted a counterclaim, in which the Court is asked to order the opposing parties to pay ICC an amount of approx. NIS 33 million. On June 15, 2020, the Plaintiffs filed a response brief in which they reiterated their arguments, and on the same day they submitted a counter statement of defense, in which the rejected the arguments of ICC in the counterclaim. The Claimants filed on July 9, 2023, principle evidence depositions, and ICC is required to file principal evidence depositions by April 4, 2024. A pretrial is set for May 5, 2024.

G. **Franchises from international organizations.** ICC is engaged in operating the credit card of brands registered in the name of the international organizations Visa International, MasterCard Worldwide and Diners Club International and has entered into a set of agreements with each of these international organizations. The license to operate the "Visa" and "MasterCard" brands is not time-limited and is not exclusive. The license is conditional on complying with these organizations' directives. The franchise to operate the "Diners" brand exclusively in Israel, granted to it by the International Diners Club, is valid through December 31, 2029.

H. **Extension of the clearing license of ICC and Diners.** On March 15, 2023, the provisional clearing permit of ICC and Diners was extended to March 31, 2024, or until a permanent permit is obtained, according to the earlier of the two.

37. Legislation Initiatives

Several legislation issues exist (laws, regulations and administrative instructions) which are at different stages of legislation. Certain of these issues are liable to have an adverse effect on the Bank's operations and its consolidated subsidiaries and their business results in the future. The Bank is not able to evaluate the scope of such effect.

38. Establishment of the PayBox Company

The cooperation agreement. A strategic cooperation agreement ("the cooperation agreement") was signed on January 19, 2021, by Discount Bank, Shufersal Ltd. ("Shufersal"), Shufersal Club Company Ltd. ("the Club Company") and PayBox Ltd. ("PayBox") (the last two were companies in formation at date of signing the agreement), for the establishment of a digital wallet for use by customers of all banks, on the basis of the payments platform of PayBox, which at that time had been wholly owned by the Bank.

The Supervisor's approval. On June 1, 2021, the Bank received the approval of the Supervisor of Banks (hereinafter: "the Supervisor's approval") permitting it to have the sole control and to directly hold the means of control in the auxiliary corporation PayBox Ltd. (hereinafter: "the auxiliary corporation"), which is to engage in managing a digital wallet platform and in providing digital services, including brokerage services for banking services and products of supervised financial bodies, subject to the conditions detailed in the letter of approval. For certain operations, PayBox is required to inform the Supervisor of Banks in writing, at least sixty days prior to the introduction of such operations, and they would be subject to obtaining consent of the Supervisor or his non-objection. The cooperation with and activity of the auxiliary corporation, as well as issues relating to use of use of the data obtained within the framework of providing the services and to cost comparison, may be subject to legislation initiatives or future regulation, if at all.

Upon receipt of the Supervisor's approval, the Bank received the regulatory approvals for the completion of the transaction being the subject matter of the agreement.

Change in structure. According to the said agreement, the Bank formed a wholly owned company under the name of "PayBox", to which were transferred all the assets of PayBox in their format existing at that date. Concurrently, Shufersal had formed a wholly owned subsidiary under the name of "Shufersal Digital Benefits" ("Shufersal Benefits"), to which were transferred assets entitling exclusive rights to different digital operations for Shufersal customers.

Following the formation of the said companies, PayBox and Shufersal Benefits were merged in such a way so that PayBox Company allotted 49.9% of its share capital to Shufersal.

On June 30, 2021, the merger of the companies was completed, so that PayBox absorbed Shufersal Benefits, which was then liquidated ceased and to exist.

Recording the transferred assets. The assets which the Bank had transferred to PayBox, including software development expenses, were recorded at their value in the books of the Bank at date of transfer. The rights for the merger agreement that Shufersal had transferred to Shufersal Benefits, including different exclusivity rights, were primarily recorded at their fair value based on the conducted valuation.

Financing the operations of PayBox. In terms of the cooperation agreement, the Bank and Shufersal agreed to provide PayBox with the funds required for its operation and for the realization of its annual work plan, in the initial years of operation.

Ruling by the Tax Authority on the application for change in structure. On June 15, 2021, the ruling by the Tax Authority was obtained in the matter of the change in structure. According to the tax ruling, the change in structure is in agreement with the terms stated in the Income Tax Ordinance, and the date of change in structure was set for June 30, 2021. Joint instructions were determined for the spin-offand merger, the tax ruling being subject thereto. This ruling states, inter alia, that Discount Bank, Shufersal and PayBox undertake that during the period of two years following the end of the year of merger, each of these entities shall have a separate independent economic activity, the income there from being subject to tax according to Section 2(1) of the Income Tax Ordinance (New version), 5721-1961 ("the Ordinance"), and that Discount Bank and Shufersal shall continue to own their rights in PayBox for a period of not less than two years, subject to the terms of the Ordinance. It is further stated that in the event that the terms of the tax ruling are not fulfilled, Shufersal, Discount Bank and PayBox shall be charged with the taxes and other compulsory payments, from which they had been exempted, together with interest and linkage differences from date of the spin-off and until the date of payment, according to Section 103(j) of the Ordinance. In such an event, Shufersal, Discount Bank and the absorbing company shall submit to the Tax Assessing Officer, immediately proximate to the date of violation, an expert valuation of the transferred operations immediately following the date of the spin-off, according to the Income Tax Rules (Application for a Pre-Ruling for a Merger Plan), 5755-1995. It was also confirmed that ownership of all employee benefit funds transferred to the names of the employees moving from Discount Bank to PayBox, and the transfer of the funds deposited with employee provident funds would be exempt from withholding tax, and that continuity of the rights to severance pay shall apply to these employees, as stated in Section 103(p) of the Ordinance.

39. Greenlend Company

On March 5, 2023, the Bank and Ezbob Ltd., a company incorporated in England ("Ezbob"), signed a non-binding memorandum of understanding for the formation of an enterprise for extending consumer credit and credit to small and middle market businesses, to customers of all banks, by means of a company that would be controlled by the Bank (an auxiliary corporation) ("the company").

On August 1, 2023, the Bank received the approval of the Supervisor of Banks for the control in full and for the direct holding of means of control in the auxiliary company Greenlend Financial Solutions Ltd., which will engage in the granting of consumer credit and credit to small and middle size businesses, as well as in any other operation ancillary to the above operations, or which is required for their performance, under the conditions specified in the Supervisor's approval.

On September 18, 2023, the Bank, the company and Ezbob signed a binding shareholder agreement. In addition, the company and Ezbob signed a binding license and services agreement, according to which the company is expected to extend and manage credit by means of Ezbob's innovative technological systems. As of the said date, all conditions precedent relating to the agreements had been fulfilled.

70% of the company's ordinary shares are held by the Bank and 30% are held by Ezbob. According to the shareholders agreement, the Bank is providing the company with capital of NIS 163 million, and Ezbob is granting the company a perpetual technology usage license, worth approx. NIS 70 million. In addition, the Bank is providing the company with a credit line of NIS 100 million. The Bank has granted the company an option for an additional NIS 100 million, against the allocation of preferred shares, which will accumulate interest that will be paid only after the ordinary shareholders receive a return of 15% per year on their initial investment (amounting to NIS 233 million). The Bank has also pledged to provide the company with credit facilities at market terms.

40. The "Iron Swords" War

The "Iron Swords" 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. 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 at first into low-key conflicts and thereafter developing into high intensity exchange of fire on a daily basis.

Following these events, tens of areas in the South and the North have been evacuated, over 100 thousand evacuated residents.

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.

Concurrently, another front has been opened in the south by the Yemen Houthi Organization, operating in two parallel channels: one, missile and unmanned aerial vehicles (UAV) attacks directed towards Israeli territory, principally towards Eilat; and the other, operations in the maritime space – disruption of the global maritime activity in the Bab-el-Mandab Straits – with the Organization threatening to hit any vessel having direct or indirect connection to the State of Israel. This activity has a direct impact on economic aspects of importing/exporting goods from countries of South and East Asia and of cost of transportation, comprising a threat to international trade and to the global economy.

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.

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 structured risk attributed to the credit field has increased. The Bank expressed this increase mostly in the collective allowance model in the second half of 2023. 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.

Moody's decided to lower the credit rating of the State of Israel, Fitch put the credit rating of the State of Israel under "negative surveillance" and S&P decided to lower the credit rating outlook of Israel from "Stable" to "Negative".

40. The "Iron Swords" War (continued)

It is estimated by the Bank that the "Iron Swords" 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 and fourth 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).

The Bank's estimates regarding the possible implications of the "Iron Swords" War, may not materialize or may materialize in a different manner than that estimated by the Bank.

2023

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Corporate governance and audit

Board of Directors and Management

Report on Directors having Accounting and Financial Expertise

According to the Companies Law, the Board of Directors has to determine the required minimum number of Directors that have accounting and financial expertise, within the meaning of this term in Section 240 of the Companies Law. According to Directive No. 301 of Proper Conduct of Banking Business Directives of the Supervisor of Banks has been updated, stating that at least one fifth of the members of a board of directors and at least two directors from among the members of an audit committee must have accounting and financial expertise, and the Bank is acting accordingly. At date of reporting, all of the Directors have accounting and financial expertise (11 out of 11) and all the directors who are members of the Audit Committee possess accounting and financial expertise (6 out of 6). List of Directors having accounting and financial expertise, are presented below under "Details regarding members of the Board of Directors". For details regarding the factual background by which they may be regarded as having such expertise, see the Bank's periodic report for 2023 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Details regarding Members of the Board of Directors

Directors name	Date on which the term of office as Director began	Membership in the Board of Directors Committees
Danny Yamin, Chairman of the Board of Directors(3)(4)(5)	February 1, 2023 (appointed as Chairman of the Board since December 11, 2023)	Chairman of the Technologies and Innovation Committee; Chairman of the Resources Committee; Credit Committee
Dr. Doron Avital(4)(5)	August 1, 2021	Compensation Committee; Technologies and Innovation Committee; Resources Committee
Iris Avner(2)(3)(4)(5)	March 23, 2021 (initially appointed on August 22, 2018)	Chairperson of the Credit Committee; Audit Committee; Technologies and Innovation Committee; Risk Management Committee
Aharon Abramovich(1)(2)(4)(5)	October 30, 2023 (initially appointed on October 30, 2017)	Chairman of the Compensation Committee; Audit Committee; Resources Committee; Risk Management Committee
Sigal Barmak(1)(2)(4)(5)	August 1, 2021	Chairperson of the Audit Committee; Compensation Committee; Risk Management Committee
Yodfat Harel-Buchris(4)(5)	February 15, 2022 (initially appointed on February 15, 2016)	Technologies and Innovation Committee; Credit Committee; Compensation Committee; Resources Committee
Prof. Ben-Zion Zilberfarb(2)(4)(5)	August 1, 2021 (initially appointed on August 1, 2018)	Chairman of the Risk Management Committee; Audit Committee; Resources Committee
Ofer Levy(1)(2)(4)(5)	October 12, 2023	Audit Committee; Compensation Committee
Dr. Yaacov Lifshitz(2)(3)(4)(5)	March 26, 2021 (initially appointed on March 26, 2018)	Credit Committee; Technologies and Innovation Committee; Risk Management Committee
Ari Pinto(3)(4)(5)	October 10, 2023	
Sigal Regev(3)(4)(5)	October 16, 2023	Audit Committee

Notes:
(1) External Director as defined in the Companies Law.
(2) Independent Director as defined in the Companies Law.
(3) External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives.
(4) Accounting and financial expertise.
(5) Professional qualifications.

For additional details regarding members of the Board of Directors, see the Bank's periodic report for 2023 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Committee for the appointment of Directors in Banking Corporations

The Banking Law (Licensing), 5741-1981, states that the Governor shall appoint a committee for the appointment of directors in banking corporations, among the duties of which, is the recommendation of candidates for the office of director in a banking corporation having no core controlling interest. The annual general meeting of shareholders had been asked to elect three Directors of external director status, as defined in Directive No. 301 of the Proper Conduct of Banking Business Directives, out of four candidates proposed by the Committee for appointment of directors in banking corporations, and two Directors of an External Director status, as defined in the Companies Law, 5759-1999, out of three candidates proposed by the Committee for appointment of directors in banking corporations. For details regarding the elected Directors, see "Changes in the Board of Directors" below.

Termination of office of the Chairman of the Board of Directors

At the meeting held on November 6, 2023, the Board of Directors resolved to appoint Mr. Danny Yamin to the office of Chairman of the Board of the Bank. This appointment took effect on December 11, 2023, upon the termination of office of Mr. Shaul Kobrinsky as the former Chairman of the Board.
The Chairman of the Board and the Directors wish to thank Mr. Kobrinsky for his long-time contribution to the achievements of the Bank, as a Director and as Chairman of the Board.

Changes in the Board of Directors

Termination of service of directors. Mr. Baruch Lederman terminated his service on November 26, 2023. The Chairman of the Board, the Board of Directors and the President & CEO thank Mr. Lederman for his work and contribution during his tenure at the Bank.
Appointment of Directors. The Annual General Meeting of Shareholders held on August 16, 2023, decided to appoint the following persons as Directors for a period of three years: Ms. Iris Avner (officiating Director being re-elected), as from March 23, 2024, and Aharon Abramovich (officiating Director being re-elected), as from October 30, 2023. The said Meeting decided to appoint Ms. Sigal Regev and Mr. Ari Pinto as Directors for a period of three years. It was also decided to appoint Mr. Ofer Levy as external Director, within the meaning of the term in the Companies Act, 1999. All as detailed on the Immediate Report dated August 16, 2023 (Ref. No. 2023-01-094740), the information contained therein regarding the above matters, is presented herein by way of reference.
Mr. Ari Pinto, took office on October 10, 2023, as Director of the Bank. Mr. Ofer Levy, took office on October 12, 2023, as external Director of the Bank. Ms. Sigal Regev took office on October 16, 2023, as Director of the Bank. All as detailed in the Immediate Report dated October 10, 2023 (Ref. No. 2023-01-114513), in the Immediate Report dated October 12, 2023 (Ref. No. 2023-01-115401), and in the Immediate Report dated October 16, 2023 (Ref. No. 2023-01-116034), respectively.
The Chairman of the Board, the Board of Directors and the President & CEO wish Ms. Regev, Mr. Pinto and Mr. Levy success in fulfilling their office.

Meetings of the Board of Directors and its Committees

In 2023, the Board of Directors held 35 meetings. In addition, 67 meetings of committees of the Board of Directors were held.

Details regarding Members of Management

Name	Office he/she holds at the corporation	Date on which the term of office began
Avraham (Avi) Levy [1]	The President & CEO	July 9, 2023[2]
Assaf Eldar	Executive Vice President; Head of the Banking Division	August 29, 2023[3]
Joseph (Yossi) Beressi	Senior Executive Vice President, Comptroller; Chief Accounting Officer and Head of the Accounting Division	April 1, 2000
Orit Caspi	Executive Vice President, Chief Risk Officer and Head of Risk Management Division	July 10, 2022[4]
Hagit Meirovitz	Executive Vice President; Head of the Human Resources Division	August 11, 2022[5]
Barak Nardi	Executive Vice President; Head of Discount Holdings Division	September 10, 2023[6]
Nitzan Sandor	Executive Vice President; Chief Legal Adviser and Head of the Legal Advisory Division	August 11, 2022
Hila Eran-Zik	Senior Executive Vice President; Head of the Corporate Division	August 15, 2022
Elad Fisher	Executive Vice President; Head of the Financial Markets Division	September 12, 2023
Assaf Pasternak	Executive Vice President; Head of the Strategy and Finance Division	July 12, 2023[7]
Efrat Keinan	Executive Vice President; Head of the Operations and Properties Division	August 10, 2023
Adi Kaplan	Executive Vice President; Head of the Technologies Division	January 17, 2021
Nir Abel	Executive Vice President; The Internal Auditor	May 18, 2011

Notes:
(1) Interested party of the corporation.
(2) Acted as Senior Executive Vice President, Chief Risk Officer and Head of Risk Management Division, as from July 21, 2016 and until February 21, 2022. Acted as Senior Executive Vice President, Head of the Banking Division, as from February 21, 2022 and until July 9, 2023.
(3) Acted as Executive Vice President, Head of the Operations and Properties Division, as from January 1, 2020 and until August 29, 2023.
(4) Acted as Executive Vice President and Head of the Human Resources Division as from January 1, 2020 until July 10, 2022.
(5) Acted as Executive Vice President and, Chief Legal Counsel and Head of the Legal Counsel Division, as from April 1, 2019 and until August 11, 2022.
(6) Acted as Executive Vice President and Head of the Strategy, Finance and Holdings Division as from December 15, 2019 and until September 10, 2023.
(7) Acted as Executive Vice President and Head of the Financial Markets Division as from April 1, 2018 until September 10, 2023.

For additional details regarding members of Management, see the Bank's periodic report for 2023 (Regulation 26A), which is presented on the MAGNA website of the Israeli Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Termination of office of the President & CEO

On April 15, 2023, the President & CEO, Mr. Uri Levin announced his intention to terminate her office, following nine years in which he had officiated in senior positions at the Bank and at the Group, of which some 3.5 years as President and CEO. On June 5, 2023, the Bank's Board of Directors decided to adopt the recommendations of the Search Committee, headed by the Chairman of the Board of Directors Mr. Shaul Kobrinsky, to appoint Mr. Avi Levy, Executive Vice President, to serve as President & CEO of the Bank. Mr. Levy took office as President & CEO of the Bank on July 9, 2023, in place of Mr. Uri Levin, who terminated his office on that date, all as stated in the immediate report dated June 5, 2023, and a complementary report dated June 21, 2023 (Ref. Nos. 2023-01-061773 and 2023-01-068328, respectively).
The Chairman and members of the Board of Directors wish to thank Mr. Uri Levin and appreciate his significant contribution to the development of the Bank, leading it to impressive achievements.
The Chairman of the Board and Board members wish Mr. Avi Levy success in his office.

Changes in Management and organizational changes

The meeting of the Board of Directors held on July 12, 2023, resolved to approve appointments and an organizational change, as stated below:
Mr. Barak Nardi, Executive Vice President, terminated his office as Head of the Strategy, Finance and Holdings Division and assumed office as Head of a new Division that was established – Discount Holdings Division. In addition, Mr. Nardi replaces Advocate Esther Deutsch, who terminated her office as Chairperson of Mercantile Discount Bank Ltd. and as Chairperson of Israel Credit Cards Ltd., and acts as Director of a number of additional subsidiaries.
Mr. Assaf Eldar, Executive Vice President, terminated his office as Head of the Operations and Assets Division and took office as Head of the Banking Division, replacing Mr. Avi Levy, who on July 9, 2023, terminated his office as Head of this Division, and was appointed the Bank's President & CEO.
The meeting of the Board of Directors, held on August 10, 2023, resolved to approve appointments to the Bank's Management, as detailed below:
Mr. Assaf Pasternak, Executive Vice President, terminated his office as Head of the Financial Markets Division and was appointed Head of the Strategy and Finance Division, replacing Mr. Barak Nardi.
Mr. Elad Fisher was appointed member of Management with the title of Executive Vice President, and heads the Financial Markets Division, replacing Mr. Assaf Pasternak.
Ms. Efrat Keinan was appointed member of Management with the title of Executive Vice President, and heads the Operations and Assets Division, replacing Mr. Assaf Eldar.
Mr. Idan Angel, Executive Vice President and Head of the Digital, Data and Marketing Division, informed recently of his intention to terminate his office. Mr. Engel terminated his office on January 1, 2024. On November 21, 2023, the Bank's Board of Directors approved a change in the organizational structure, within the framework of which, units of the Digital, Data and Marketing Division would be transferred, as follows: the Marketing Subdivision would be transferred to the Strategy and Finance Division. The Data and Analytics Subdivision and the Digital Section would be transferred to the Technologies Division. The Customer Experience Administration would be transferred to the Banking Division.
Ms. Nitzan Sandor, Executive Vice President and Head of the Legal Advisory Division, informed recently of her intention to terminate her office. No date has yet been set for the termination of her office, but she is expected to terminate her office during the second quarter of 2024.
The Chairman of the Board, the Board of Directors and the President & CEO thank Mr. Idan Angel and Ms. Nitzan Sandor for their activity and contribution during their period of office at the Bank, and wish Mr. Barak Nardi, Mr. Assaf Pasternak, Mr. Elad Fisher and Ms. Efrat Keinan success in fulfilling their offices.

The detailed information contained in the immediate reports mentioned above in the section "Board of Directors and Management", is presented herewith by way of reference.

The Internal Audit in the Group in 2023

Details of the Internal Auditor. The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Internal Auditor is not an interested party in the Bank, is not an officer of the Bank, is not related to any of these persons and is not the Bank's external auditor or acting on his behalf.
The Internal Auditor complies with the provisions of Section 146(B) of the Companies Law and of Section 8 of the Banking Rules (Internal Audit) and the staff of the internal audit department comply with the provisions of Section 8 of the Banking Rules (Internal Audit). In addition, until July 2020, Mr. Nir Abel had served also as Internal Auditor of Israel Credit Cards Ltd.
The manner of appointment. The appointment of the Internal Auditor was approved by the audit committee in its meeting on November 29, 2010 and by the Board of Directors in its meeting of December 12, 2010. The appointment of Mr. Abel was approved in light of his qualifications, education and long-term professional experience in the field of internal audit and in the role of chief internal auditor in the banking system. Until his appointment, Mr. Abel, a certified public accountant and economist, served as Head Internal Auditor of the First International Bank Group from

August 2006 until March 2011, and as the Chief Internal Auditor of Otzar Hahayal Bank as from November 2000 and until March 2011.

Letter of appointment. The letter of appointment is presented for approval of the Audit Committee and the Board of Directors once every three years. The letter of appointment was last approved by the Audit Committee and by the Board of Directors in December 2021.

The organ in charge of the Internal Auditor. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.

Work plan. The internal audit operates according to the annual work plan derived from a multi-annual work plan (the multi-annual work plan covers a period of four years). The annual and multi-annual work plans (hereinafter: "the work plan") are prepared in according to the Internal Audit Law, 1992 and according to Proper Bank Management Directives. The work plan was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel, COSO 2013, SOX and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function). Prior to the work plan being submitted for approval, it is forwarded to the Bank's independent auditors, to the chairman of the Board of Directors, to the Chairman of the Board's Audit Committee and to the Bank's President & CEO for lodging comments and elucidations. The Board of Director's Audit Committee discusses the work plan and on the basis of its recommendations the plan is brought before the Board for approval. A deviation from the work plan is brought for approval of the Audit Committee.

The Board of Directors and the Audit Committee, which had examined the work plan of the internal audit and the actual performance thereof, are of the opinion that the Bank's internal audit fulfills the requirements determined by professional standards and by the instructions of the Supervisor of Banks.

Audit of investee corporations in Israel and abroad. The internal audit work plan also relates to the Bank's investee companies in Israel and abroad. The planned work programs for the subsidiaries, at which the Deputy Internal Auditor or one of the Section managers were appointed as their Internal Auditor, are combined with the annual work program for the Bank's internal audit, while addressing each subsidiary separately. The scope of the work program for each subsidiary as above, is discussed by the audit committee of each subsidiary, and/or by the Board of Directors.

Where the Bank's Internal Auditor does not perform audits of investee companies, control of such companies is performed as required by Section 1(A)(3) of Banking Rules. In addition, the Bank's Internal Auditor coordinates in advance with the Internal Auditor of the investee company as to the matters which would be audited by the Internal Auditor of the investee.

Scope of employment. The Internal Auditor is engaged in a full time position and the average number of staff in the Group in the reported period numbered 87.4 positions (including overheads; not including 5.5 outsourcing positions), of which, 34.8 positions in corporations that engage an independent Internal Auditor (MDB, ICC and IDB Bank). The number of positions in the Internal Audit Group is derived from the requirements of the work plan as approved by the Board of Directors.

Average number of positions in 2023 engaged in internal audit at the Bank and in investee companies in Israel and abroad

	Group employees	Outsourcing employees
The Bank	49.5	2.5
Investee companies in Israel audited by the Bank's internal auditor[1]	2.1	-
In overseas extensions - IDB New York	1.0	-
Investee companies in Israel where the audit is performed by an independent internal auditor[2]	23.3	0.5
Investee companies abroad where the audit is performed by an independent internal audito[3]	11.5	2.5
Total	**87.4**	**5.5**

Notes:

(1) Inputs in non-banking subsidiaries and inputs in respects of audit of independent banking corporations by the parent company.

(2) The inputs include 17.5 positions in respect of MDB (of which 0.2 outsourced positions) and 6.3 positions in respect of ICC (of which 0.3 outsourced positions).

(3) Auditors in IDB New-York.

Performance of the audit. The internal audit is carried out according to the provisions of the Internal Audit Law, 5752-1992 and according to the professional standards of the Institute of Internal Auditors in Israel. Starting from July 1, 2012, the internal audit operates also according to Proper Conduct of Banking Business Directive No. 307.

The Board of Directors and the Audit Committee have expressed their opinion that the internal auditor has met all the requirements prescribed in the standards referred to above in the directives and guidelines of the Supervisor of Banks, based on an assessment of the internal audit function and the regular reports that it submits. The Audit Committee receives regular reports regarding the activity of the Internal Audit Division, by means of ongoing quarterly reporting and the half-yearly and annual reports, as well as reports on specific topics. An external assessment of the activity of the internal audit function was performed in 2019 by a CPA firm selected by the Audit Committee. In the same year, a review of the Internal Audit's work operations was conducted by the Bank of Israel. The Bank of Israel's external assessment and review were discussed by the audit committee in February 2020.

In addition, the Internal Audit conducts a self-assessment every year, in accordance with the guidance contained in Proper Conduct of Banking Business Directive No. 307. The last internal assessment was discussed by the audit committee in July 2023.

Access to information. All information and documentation required by the Internal Auditor is handed over to him and is granted permanent and direct access to the Bank's information systems and of investee corporations in Israel and abroad, including financial data.

Reports by the Internal Auditor. All audit reports are submitted in writing and presented to the Chairman of the Board, the Chairman of the Audit Committee, the President & CEO, the Chief Risk Manager, the independent auditors and relevant members of the Management.

The Internal Auditor submits periodic activity reports to the Chairman of the Board of Directors, the Chairman of the Board of Directors' audit committee, the President & CEO, the Bank's Management, the Chief Risk Officer, and the independent auditors, as follows:

- A monthly summary report is presented to the Chairman of the Board, the Chairman of the Audit Committee, the independent auditors and the Bank's Management;
- A quarterly report concerning all the internal audit work performed at the Bank, at the subsidiaries in Israel and at the foreign extensions, detailing the material findings reported in the individual reports submitted during the reviewed quarter, as well as follow-ups of previous quarterly reports and prior issues that had not yet been resolved;
- A semi-annual report and an annual report in the format required by Proper Conduct of Banking Business Instruction No. 307 in the matter of internal audit.

The quarterly and annual reports are discussed by the Management and thereafter by the Boards' Audit Committee. The annual report is discussed also by the Board of Directors.

In addition, the Chairman of the Audit Committee, in consultation with the Internal Auditor, determines which are the material internal audit reports that are to be presented in their entirety to the Audit Committee.

The periodic reports were submitted and discussed as follows:

- The report on the activities of the internal audit in the fourth quarter of 2022, submitted on February 5, 2023, and discussed by the Audit Committee on March 29, 2023;
- The annual report on the activities of the internal audit in 2022, submitted on March 21, 2023, and discussed by the Audit Committee on March 29, 2023 and by the Board of Directors on May 14, 2023;
- The report on the activities of the internal audit in the first quarter of 2023 was submitted April 23, 2023, and discussed by the Audit Committee on May 8, 2023;
- The report on the activities of the internal audit in the second quarter of 2023 was submitted on August 23, 2023, and discussed by the Audit Committee on September 13, 2023;
- The report on the activities of the internal audit in the third quarter of 2023, submitted on October 29, 2023, and discussed by the Audit Committee on December 3, 2023;
- The report on the activities of the internal audit in the fourth quarter of 2023, submitted on February 13, 2024 and is yet to be discussed by the Audit Committee.

Valuation by the Board of Directors of the Internal Auditor's performance. In the opinion of the Board of Directors and of the Audit Committee, the scope, nature and continuity of the operations of the Internal Auditor and his work plan are reasonable under the circumstances and attain the goals set out for internal audit at the Bank.

Compensation. Details of the payments to the Internal Auditor and of the components thereof are given hereunder. In the opinion of the Board of Directors, such payments have no effect upon the Internal Auditor's professional judgment.

The Internal Auditor's Compensation

General details			Compensation* for services							
Year	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Share based payment(3)	Total	Of which: total for the Compensation for Officers of Financial Corporations Law(4)	Loans granted under regular terms(5)
			in NIS thousands							
2023	100%	-	1,348	818	283	130	382	2,961	2,871	-
2022	100%	-	1,279	798	395	123	175	2,770	2,575	-

* The amounts of the compensation do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award, early notice and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) See Note 24 D to the financial statements.

(4) Compensation, as defined in the Compensation to Officers of Financial Corporations Law (Special approval and non-deductibility tax wise of exceptional compensation), 5776-2016, which is the total compensation, excluding provisions for severance pay and provident fund contributions (including loss of work ability) according to the law.

(5) Excluding balances in respect of credit cards as of date of reporting.

Mr. Abel is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Abel is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Mr. Abels' salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Abel is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Abel is entitled to severance payment according to the law (however, according to the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), non-competition/adaptation award in an amount equal to six monthly salaries. Mr. Abel is entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E and G to the financial statements).

Auditor's Compensation

The joint auditors of the Bank are BDO Ziv Haft, CPA, since 2000[12], and KPMG Somekh Chaikin, CPA, since 1998.

Compensation(1)(2)(3) paid to the auditors (in NIS thousand)

	Consolidated		The Bank	
	For the year ended December 31,			
	2023	2022	2023	2022
For Auditing(3):				
To the joint auditors	24,339	23,950	9,863	9,365
For Other Services:				
Audit related services(4):				
To the joint auditors	2,306	1,901	1,795	1,606
Taxation Services(5):				
To the joint auditors	4,446	3,333	1,386	1,201
Other Services:				
To the joint auditors	6,681	5,295	6,043	5,182
To other auditors	-	-	-	-
Total	13,433	10,529	9,224	7,989
Total Auditors' Remuneration	**37,772**	**34,479**	**19,087**	**17,354**

Footnotes:

(1) Report of the Board of Directors to the Annual General Meeting of Shareholders on the compensation of the independent auditors for their audit work and for services in addition to the audit, according to Sections 165 and 167 of the Companies Act, 5759-1999.

(2) Includes compensation that has been paid and compensation that has been accrued.

(3) Auditing annual financial statements and reviewing interim financial statements. Also includes audit - internal control over financial reporting (SOX 404).

(4) Includes mainly audit work and special examinations.

(5) Including mainly annual tax reconciliation statements paid for as part of the audit fees and attributed to tax services based on estimate, tax assessments and tax consultations.

(6) Certain services that were provided in 2021 and included under "Audit related services" have been included under "Audit services" with effect from 2022.

12 The firm of Haft & Haft, which merged into the firm of Ziv Haft in 2000, has served as the independent auditors of the Bank since 1935.

Compensation of Interested Parties and Senior Officers and Transactions with Interested Parties

Compensation of Interested Parties Senior Officers

Year 2023											
Details of the recipient				Compensation* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Share based payment[3]	Total	Of which: total for the Compensation for Officers of Financial Corporations Law[4]	Loans granted under regular terms[5]
				in NIS thousands							
Mr. Danni Yamin	Chairman of the Board	100%	-	(6)686	-	-	-	-	686	686	-
Mr. Shaul Kobrinsky	Former Chairman of the Board	100%	-	3,331	-	-	22	-	3,353	2,901	-
Mr. Avraham (Avi) Levy	President and CEO	100%	-	1,917	(7)12	2,256	105	486	4,776	3,156	-
Mr. Uri Levin	Former President and CEO	100%	-	1,526	-	1,154	107	-	2,787	2,575	-
Mr. Ziv Biron	President and CEO of IDB New York	100%	-	4,004	1,807	335	246	-	6,392	(8)-	-
Mr. Levi Halevi	President and CEO of Israel Credit Cards (ICC)	100%	-	2,086	2,336	646	130	-	5,198	(8)-	61
Ms. Hila Himi	President and CEO of Discount Capital	100%	-	1,943	1,820	622	202	-	4,587	(8)-	-
Mr. Sagy Aseraf	Executive Vice President, Head of International Private Banking and Regional Manager of Florida operation of IDB New York	100%	-	1,983	1,777	216	193	-	4,169	(8)-	-
Mr. Assaf Eldar	Executive Vice President, Head of the Banking Division	100%	-	1,397	784	633	225	373	3,412	3,156	491
Mr. Barak Nardi	Executive Vice President, Head of Discount Holdings Division	100%	-	1,429	804	525	231	411	3,400	3,156	-
Ms. Hila Eran-Zik	Senior Executive Vice President, Head of the Corporate Division	100%	-	1,575	734	361	195	486	3,351	3,127	-
Mr. Joseph (Yossi) Beressi	Senior Executive Vice President, Comptroller, Chief Accounting Officer and Head of the Accounting Division	100%	-	1,393	637	451	208	399	3,088	2,868	-

* The amounts of the compensation do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award, early notice and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) See Note 24 D to the financial statements.

(4) Compensation, as defined in the Compensation to Officers of Financial Corporations Law (Special approval and non-deductibility tax wise of exceptional compensation), 5776-2016, which is the total corporations, excluding provisions for severance pay and provident fund contributions (including loss of work ability) according to the law (or contributions to funds as an alternative to these components for anyone not employed as an "employee").

(5) Excluding balances in respect of credit cards as of date of reporting.

(6) Including director compensation until the beginning of his office as Chairman of the Board.

(7) Linkage of deferred portions of the award for 2021.

(8) The Compensation for Officers of Financial Corporations Law does not apply to this officer.

Compensation of Interested Parties Senior Officers (continued)

Year 2022											
Details of the recipient				Compensation* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Share based payment(3)	Total	Of which: total for the Compensation for Officers of Financial Corporations Law(4)	Loans granted under regular terms(5)
				in NIS thousands							
Mr. Shaul Kobrinsky	Former Chairman of the Board	100%	-	3,131	-	-	26	-	3,157	2,721	-
Mr. Uri Levin	Former President and CEO	100%	-	2,825	169	416	66	-	3,476	3,043	-
Mr. Ziv Biron	President and CEO of IDB New York	100%	-	3,648	2,325	263	249	-	6,485	(6)-	-
Mr. Liran Razmovich	President and CEO of Discount Capital Underwriting	100%	-	1,696	2,265	431	317	-	4,709	(6)-	109
Ms. Hila Himi	President and CEO of Discount Capital	100%	-	1,797	1,528	944	200	-	4,469	(6)-	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	2,027	1,851	355	77	-	4,310	(6)-	-
Mr. Levi Halevi	President and CEO of Israel Credit Cards (ICC)	100%	-	1,833	1,405	799	241	-	4,278	(6)-	29
Mr. Avraham (Avi) Levy	Senior Executive Vice President, Head of the Banking Division(7)	100%	-	1,678	669	741	202	222	3,512	3,043	-
Mr. Assaf Pasternak	Executive Vice President, Head of the Financial Markets Division(7)	100%	-	1,314	858	707	184	188	3,251	2,740	-
Mr. Barak Nardi	Executive Vice President, Head of the Strategy, Finance and Holdings Division(7)	100%	-	1,298	885	427	216	188	3,014	2,802	-
Mr. Joseph (Yossi) Beressi	Senior Executive Vice President, Comptroller, Chief Accounting Officer and Head of the Accounting Division	100%	-	1,334	769	480	206	183	2,972	2,727	-

* The amounts of the compensation do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award, early notice and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) See Note 24 D to the financial statements.

(4) Compensation, as defined in the Compensation to Officers of Financial Corporations Law (Special approval and non-deductibility tax wise of exceptional compensation), 5776-2016, which is the total corporations, excluding provisions for severance pay and provident fund contributions (including loss of work ability) according to the law (or contributions to funds as an alternative to these components for anyone not employed as an "employee").

(5) Excluding balances in respect of credit cards as of date of reporting.

(6) The Compensation for Officers of Financial Corporations Law does not apply to this officer.

(7) According to his title in 2022.

Mr. Danny Yamin, serves as Chairman of the Board of Directors since December 11, 2023. For details regarding the terms of office of Mr. Yamin, see Note 35 F to the financial statements.

Mr. Shaul Kobrinsky served as Chairman of the Board of Directors until December 10, 2023. For details regarding the terms of office of Mr. Kobrinsky, see Note 35 F to the financial statements.

Mr. Avraham (Avi) Levy serves as the Bank's President & CEO from July 9, 2023. For details regarding the terms of office of Mr. Levy, see Note 35 G to the financial statements. Before that, Mr. Levy was employed by the Bank as Senior Executive Vice President, Head of the Banking Division, and was entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Uri Levin, Mr. Levin officiated as the Bank's President & CEO until July 9, 2023. For details regarding the terms of office of Mr. Levin, see Note 35 G to the financial statements.

Mr. Ziv Biron, President & CEO of IDB Bank, is employed pursuant to the terms of an Employment Agreement. IDB Bank's Compensation Committee of the Board of Directors approved the initial terms of the Employment Agreement and annually reviews and approves Mr. Biron's incentive compensation. Mr. Biron is entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank. IDB Bank provides Mr. Biron with the use of an automobile and annual home leave in Israel.

Mr. Levi Halevi, acts as President and CEO of ICC. Mr. Halevi is engaged under a personal agreement that states the terms of his employment, which include a fixed salary, social contributions, an appropriate vehicle, variable compensation according to the compensation policy of ICC, a reciprocal advance notice of termination, and an adaptation award payable upon termination of his office. Moreover, Mr. Halevi is committed to a non-competition period. In addition, Mr. Halevi is entitled to awards in accordance with the award plan detailed in Note 21, Section D of ICC's financial statements for December 31, 2023.

Ms. Hila Himi, serves as CEO of Discount Capital Ltd. Ms. Himi is employed under a personal contract for an indefinite period that can be terminated by either of the parties giving four months' advance notice. The non-competition period defined in the agreement is for three months from the termination date of his employment with the company. Ms. Himi is entitled to vacation days, sick days, recreation pay, a suitable vehicle, social benefits (severance pay, provident fund, loss of capability to work insurance, and further education fund), adaptation award in an amount equal to three monthly salaries, and additional benefits.

Mr. Sagy Aseraf, is employed as Executive Vice President at IDB Bank, Head of the Private Banking Division and Manager of the Florida region. For additional details, see below "Terms of employment of members of Management of IDB Bank".

Mr. Asaf Eldar, is employed by the Bank as Executive Vice President, Head of the Banking Division. Mr. Eldar is entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Barak Nardi, is employed by the Bank as Executive Vice President, Head of the Discount Holdings Division. Mr. Nardi is entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Ms. Hila Eran-Zik, is employed by the Bank as Senior Executive Vice President, Head of the Corporate Division. Ms. Eran-Zik is entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Joseph (Yossi) Beressi, employed by the Bank as Senior Executive Vice President, Comptroller - Chief Accounting Officer and Head of the Accounting Division. Mr. Beressi is entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Terms of employment of members of the Bank's Management. Members of the Bank's Management mentioned above are employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. The period of limitation on competition stated in the agreement is three to six months from date of termination of their employment with the Bank, unless it is otherwise agreed by the parties. The salary of part of the members of the Bank's Management is linked to the CPI, and in the event of the CPI falling, their salary will not change until such time that the rise in the CPI offsets the rate of the fall. Members of the members of the Bank's Management are entitled to vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, the Bank's management are entitled to severance payment according to the law (however, according to the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), as well as to non-competition/adaptation award in an amount equal to four to eight monthly salaries. For details regarding the compensation plan for the Bank's officers (2020-2022) and the compensation plan for the Bank's officers (2023-2025), see Note 23 D and E to the financial statements, respectively. For details regarding the award plan for members of the Bank's Management and for the Internal Auditor (2020-2022) and the award plan for members of the Bank's Management and for the Internal Auditor (2023-2025), see Note 23 F and G to the financial statements, respectively.

Terms of employment of members of Management of IDB Bank. Members of IDB Bank Management mentioned above are employed by IDB Bank as an "employee at will." IDB Bank's Compensation Committee of the Board of Directors annually reviews and approves the compensation of members of the IDB Bank management. Members of the IDB Bank management are entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank.

For details regarding officers included in the Table for 2022, but not included in the Table for 2023, see the 2022 annual report (pp. 334-335).

Members of the Board of Directors. Directors of the Bank are entitled to annual compensation and to participation compensation, payable under the regulations of the Companies Law (Regulations regarding compensation and expenses payable to external directors), 2000 (the "regulations"). The Chairman of the Board is not entitled to annual compensation and to participation compensation. For details regarding the payment to expert directors (as defined in the Regulations), see Note 35 L. The cost of compensation for all the Directors, excluding the officiating Chairman of the Board, amounted in 2023, to NIS 6,858 thousand (2022: NIS 8,350 thousand).

Compensation policy for Officers of the Bank. For details respecting the compensation policy for officers of the Bank, see Note 23 D and E to the financial statements. For further disclosure in the matter of "compensation", see the document "Disclosure according to the third pillar of Basel and additional information on risks", available for review on the Internet.

For details regarding the Compensation of Officers of Financial Corporations Law, 2016, see the 2016 Annual Report (pp. 406-407).

Letters of the Supervisor of Banks in the matter of "principles for determining the terms of office of the chairman of the board of a bank having no core controlling interest". For details, see the 2022 Annual Report (pp. 336-337).

Transactions with Interested and Related Parties

The terms of service of the Chairman of the Board of Directors. At a special General Meeting of the Bank, held on February 7, 2024, the terms of service and employment of Mr. Danny Yamin, Chairman of the Board of Directors, were approved, all as specified in the immediate reports dated December 31, 2023 (reference no.: 2023-01-118012) and February 7, 2024 (reference no.: 2024-01-014199).

Terms of office of the of the Bank's President & CEO. On August 16, 2023, the meeting of shareholders of the Bank approved the terms of office and employment of Mr. Avi Levy as President & CEO of the Bank. All as detailed in the Immediate Reports dated July 12, 2023 (Ref. No. 2023-01-079239) and August 16, 2023 (Ref. No. 2023-01-094740).

Terms of office of the former Chairman of the Board and of the former President & CEO of the Bank. For details, see Note 35 F and G to the financial statements.

Directors and officers liability insurance. On April 1, 2023, the Bank purchased a collective insurance policy for Directors and Officers, officiating and who may officiate from time to time at the Bank, including for their office on behalf of the Bank in any other company in which the Bank has an interest. The said insurance policy was purchased according to approvals of the Compensation Committee and the Board of Directors and Position 101-21 of the Securities Authority.

A collective insurance policy for Directors and Officers. For details, see Note 35 O.

Amendment of the Remuneration Policy of Officers at the Bank according to Section 267A of the Companies Law. The General Meeting of Shareholders held on February 28, 2023, resolved to approve an amendment to the compensation policy for Officers at the Bank, according to Section 267A of the Companies Law. All as detailed in the Immediate Reports dated January 23, 2023 (Ref. No. 2023-01-010734) and February 28, 2023 (Ref. No. 2023-01-022248), the information detailed therein in this matter is presented hereby by way of reference.

Corporate Governance Questionnaire

The Securities Authority published on January 14, 2016, an updated version of the Corporate Governance Questionnaire. The accompanying letter noted that the staff of the Securities Authority works for the establishment of the matter in a binding and permanent manner in Regulations, and that it encourages its implementation even previously. A corporate governance questionnaire for the year 2023, which was voluntarily published by the Bank in an updated version, is available for review on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Special and independent committee – proceedings in Australia

Different legal proceedings have been conducted in Australia and in Israel against the Bank and against MDB ("the banks"), relating to accounts held with the banks by certain Australian family members and by companies related to them. The essence of the said proceedings is civil lawsuits (fiscal) filed in Australia by Liquidators of the related companies, claiming damage caused to these companies due to amended tax assessments issued by the Australian Tax Authorities. The claims were based on the argument (refuted) that the said banks had provided banking services to customers, assisting them in evading the payment of taxes in Australia.

On January 31, 2021, the banks signed compromise arrangements in relation to the aforementioned proceedings for the settlement of all claims and actions of the Plaintiffs against the Discount Group, including in relation to the proceedings, the family members and the related companies, with this being without any admission of liability. According to the aforesaid arrangements, the amount of the settlement totals approx. AUD 138 million, equivalent to approx. NIS 343 million.

Concurrently, the Bank has agreed to an arrangement whereby the insurers will pay the banks an amount of approx. US$ 55 million for which an amount of approx. US$ 47.5 million (approx. NIS 151 million) was recorded as income.

For further details, see Note 26 C 11.3 to the financial statements as of December 31, 2020 (pp. 230-231).

The Bank had carried out a lesson learning process in order to avoid repetition of events of that sort, and in this framework, the Bank reassessed processes and procedures.

As required by the Supervisor of Banks, the Boards of the two banks have decided to establish a joint committee of the two Boards of Directors, which will be a special, independent committee that will be headed by her honor, Retired Judge Hila Gerstel. His honor, Retired Judge Jacob Sheinman was appointed on August 15, 2021, as joint Chairperson of the Committee, acting together with her honor, Retired Judge Gerstel. The Committee was appointed to examine the administrative and control processes that allowed the conduct of the Banks that led to the proceedings for which the compromise arrangements were signed, while addressing, inter alia, to corporate governance aspects and the conduct of the Board of Directors and the senior Management including drawing conclusions and making general and personal recommendations with regard to officers and employees, where necessary, including in relation to compensation awards granted to the officers during the relevant period.

Based on all the claims, information, documents, and evidence presented to it, the Committee assessed the probability of possible defendants being held liable, according to the various grounds for the claim, and the significance for the banks of proceedings being conducted. The Committee, in its role as an independent claims committee, submitted separate reports to the banks' boards of directors in relation to Discount Bank and in relation to MDB. The Committee, in its role as an institutional and procedural review committee, will submit another confidential report, as required by the Bank of Israel, in which the administrative and control processes examined by it will be presented to the Bank of Israel.

Within the framework of the reports, the Committee recommended to the banks' boards of directors that no legal proceedings be taken against the directors and other officers for breach of fiduciary duty, since it believes that, in the circumstances of the case, the chances of such cause of action are negligible. The Committee recommended that the banks' boards of directors not take legal action against the directors and other officers for breach of the duty of care, since it believes that, in the circumstances of the case, the chances of such cause of action are very low. Accordingly, the Committee also believes that there is no merit in demanding that the directors and other officers refund the compensation awards they received within the framework of their service with the banks during the relevant period, and there is no merit in taking legal action on this matter.

With regard to six employees (including former employees) of the Bank and three former employees at MDB, who are not officers, the Committee determined that there was allegedly a breach of the duty of care imposed on them as employees of the Banks. However, after examining the best interests of the banks in a broad sense, including the benefits, harm, costs and possible financial gains involved in conducting such a claim, the Committee recommended that the banks' boards of directors not take legal action against these employees.

The Committee conducted negotiations with the insurers of the directors and other officers and, within the framework of the reports, it recommended reaching a settlement, subject to the approval of the District Court within the framework of the application for disclosure of documents before submitting an application for approval of a derivative claim filed in connection with the events that are the subject of the proceedings in Australia, as stated in Note 26 C 1 of the Bank's 2022 Financial Statements ("The Application for Discovery of Documents"), which includes a payment to the banks for all possible grounds and claims against directors, other officers and employees of both banks for a total, final and full sum of NIS 18.1 million. Of this sum, an amount of NIS 15.5 million will be paid to the banks and an amount of NIS 2.6 million will be paid for professional fees, expenses and compensation (with only the VAT component on the last amount being paid by the banks from the settlement amount). The Committee noted that after meetings were held with the insurers and they were presented with the Committee's findings and recommendations, the amount of this settlement was also accepted by the attorneys for the party that filed the Application for the Discovery of Documents.

At a number of meetings, the Board of Directors of MDB and the Board of Directors of the Bank discussed the Committee's reports and recommendations and, at their meetings from November 20 (MDB) and November 26 (the Bank), respectively, they decided to adopt the findings, conclusions and recommendations of the Committee in full, while directing the banks' Managements and legal advisors to act to formulate and implement the arrangements accordingly.

All as detailed in the Immediate Report from November 27, 2023 (Ref. No. 2023-01-128346), the details contained therein are presented here by way of reference.

On November 30, 2023, the parties informed the Court as to the adoption of the recommendations of the Committee by the banks and as to the intention to reach a detailed arrangement with the relevant factors, so that it will be able to file an application for the approval of the aforesaid settlement with the court.

Group Management

Proper Conduct of Banking Business Directives regulate, among other things, the Group conduct of the banking corporation as regards various issues. Instructions have been prescribed at the Bank, among other things, with regard to group management, according to which the Board of Directors is required to determine the overall strategic goals of a banking corporation and of corporations controlled by it, including its domestic and foreign extensions, including the fundamental operating guidelines and the risk appetite. In addition, it stipulates that the Board of Directors shall determine general guidelines regarding the structure of corporate governance in such controlled corporations, in a manner that would contribute to efficient supervision over the Group.

The Proper Conduct of Banking Business Directive no. 301 includes reference to the framework of considerations of the controlled corporation, and requires that the Board of Directors of the controlled corporation must take into consideration, among other things, the overall strategic goals of the Group, the overall risk management policy of the group and the overall guidelines of the group regarding the supervision and control mechanisms over controlled corporations, determined, respectively, by the Board of Directors of the controlling banking corporation, in as much as they agree with the interests of the controlled banking corporation and with the provisions of Section 11 of the Companies Law, regarding the purpose of the company. In continuation of the above stated, Proper Conduct of Banking Business Directive No. 306, which took effect on January 1, 2019, establishes the expectations of the Supervisor of Banks for the tightening of supervision over banking extensions abroad. On December 23, 2019, the Supervisor of Banks published amendments to Proper Conduct of Banking Business Directives Nos. 306 and 308, which are intended to strengthen the control of banking corporations over their overseas extensions.

In July 2023, the Board of Directors approved a 'group management policy' document, which updated and replaced the operating procedures with investee companies policy, that had been in force until then. The policy sets forth the work procedures between the Bank and investee companies regarding, among other matters, the appointment of directors and officers, formulating strategy and work plans, oversight and control mechanisms over risk exposures at investee companies, reporting mechanisms to enable the parent company to increase supervision on the activities of investee companies, and the professional accountability of the professional functions at the subsidiaries to the professional functions at the parent company and deciding on a management party to be responsible for each subsidiary. The material companies in the Group have completed the adoption of the policy, with required changes for their nature and scope of operations.

The Bank operates a Group Management Subdivision within the Discount Holdings Division, the purpose of which is, inter alia, is to maximize the value of the Group's subsidiaries and to assist in fulfilling the group responsibility of the President & CEO and the Group's Management. The Subdivision plays a central role in leading and advancing group management of strategic business aspects and in utilizing synergies within the Group. Concurrently, the professional functions at the Bank fulfill accompanying, oversight and control roles in the regulatory, legal and accounting aspects, as well as in the compliance, taxation, risk management, and oversight and control spheres, and additionally it is in their authority to issue binding professional guidelines to the Group companies, and all this, in a manner that would assist Management of the Group and the Board of Directors to apply and realize in an optimal manner, the strategy of the Group, and this according to principles approved by the Bank within the framework of the group management policy.

For details regarding the group risk management, see "Principles for risk management" under "General Description of the Risks and Manner of Management thereof" above. For details regarding the duty to set a policy with respect to employment and retirement terms at subsidiary companies, see "Compensation policy in a banking corporation" under "Human Capital" below.

Environment, Social and Governance (ESG)

This field is being managed at the Bank by the Strategy and Finance Division, through the ESG Administration. In addition, an ESG Forum has been established with the participation of representatives from all divisions of the Bank, led by the Head of the Strategy and Finance Division, who is responsible for the implementation and advancement of the ESG strategy at all divisions of the Bank.

Involvement with and Contribution to the Community. Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. In 2023, employees contributed time and compassion to a wide range of activities, assistance and support for diverse groups of the population in Israel, including children, youth, students, military service personnel, distress population, senior citizens, persons with disabilities, the sick and more.

The granting of donations to different associations was significantly increased in 2023, with pioneering strategic cooperation, as well as sponsorships in the cultural and art fields.

"Discount Sprint for the future" – Discount Bank's flag ship project. As from the year 2005, the Bank acts in cooperation with the "Sprint for the Future" Association, adopting the program "Discount Sprint for the future", a growing partnership for a significant social yield, led by social and economic changes. The Bank is a partner both in the financial support of the Association and in promoting its activities. The voluntary work of the Discount Bank employees was expanded in 2023 within the framework of the programs of the Association, inter alia by the adoption of youth villages and schools participating in the project, to joint activities with branches and units of the Bank, financial education training, mentoring, providing courses reinforcing preparation for matriculation exams, establishment of a computer room, the donation of computers, and so forth.

Environmental, Social and Governance Report (ESG) No. 12. Environmental, Social and Governance Report (ESG) Report No. 12, for 2022, is available for perusal on the Bank's website. The report was prepared according to the GRI[13] and SASB[14] reporting standards.

"Maala" Rating for 2023. On July 17, 2023, "Maala" published its rating for 2022. The Bank and ICC had been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90).

For details regarding "Support of the community during the "Iron Swords" War period" and regarding "Keren Or – Foundation in aid of children and youth harmed during the War", see below.

Principal environment, social and governance indices (ESG)

Social

Field	Index	2023	2022	2021
Employees[1]				
	Number of employees	5,252	4,957	4,893
Community				
	Ratio of volunteers at the Bank	64%	53.5%	52.7%
Economic performance				
	Economic value to stakeholders (in NIS million)[4]	11,329	3,30 4	8,518

Corporate governance

Field	Index	2023	2022	2021
Board of Directors				
	Independence of the Board of Directors	72.7%	80%	70%
	Ration of female Board members	36.4%	30%	40%

Footnotes:
(1) The data does not include employees on unpaid leave and on maternity leave.
(2) The data does not include 83 outsourced employees.
(3) Total commitments through Discount Capital within the framework of funds managing investments having a social impact alongside a financial return.
(4) Operating and other expenses with the addition of provision for taxation and dividends.

Support of the community during the "Iron Swords" War period

Immediately proximate to the outbreak of the War, the Bank and its employees readied themselves to assist residents of communities surrounding the Gaza Strip and of the South. Jointly with the Human Resources Division and the Strategy Division, a designated team has been formed for dealing with requests for assistance and for initiatives regarding support of different factors, in directing monetary assistance and matching volunteers to the different activities. The Bank allocates funds for different factors to the direct support of casualties, to supporting entities and to fighters of the IDF.

13 Global Reporting Initiative.
14 Sustainability Accounting Standard Board

Included in the above are: focused assistance had been provided to residents of communities surrounding the Gaza Strip, who remained with absolutely nothing at all, in getting organized and acquiring basic needs; assistance to local authorities in the South and to residents of the area; assistance to Kibbutz Re'im in purchasing equipment and furnishing of alternative residence, initiated by the representative committee of Discount Bank employees, together with contributions of leave days pay and cash donations by Bank employees; funding of hundreds of hotel rooms in Central Israel for residents of the South who wanted to move to a safer place; funding of psychological treatments and mental help to hundreds of children and youth by means of the resilience centers operating in the towns of communities surrounding the Gaza Strip and in the South; procuring equipment for fighters of the IDF; donations to hospitals treating casualties from the fighting zones for the purchase of life-saving equipment; donations to Magen David Adom and ZAKA associations for the reinforcement of their rescue teams; donations for the support of the IDF and the security forces; Donations to Savyonim Association in support of the operation of ambulances transporting sick and handicapped persons and those with special needs; donations to the Jordan River Village, which opened its doors to families of children with complex disabilities, who were evacuated from their homes in the communities surrounding the Gaza Strip and in the Southern towns; donations for the maintenance of agricultural activity of the Ein Habsor cooperative Israeli community (moshav); donations for operating a pampering food truck for IDF soldiers, in cooperation with Moshik Roth and the KARNAF Group; donations for operations rooms established to support IDF fighters, civilians and more.

Furthermore, many hundreds of Bank employees take part since the beginning of the War in different voluntary activities around the country, such as: packaging of personal effects (clothing, toys, etc.) for servicemen and residents of the Gaza Envelope and of the South in cooperation with the "Pitchon Lev" Association; preparation of sandwiches for soldiers and residents of the communities surrounding the Gaza Strip; packaging of hot meals for the security forces and hospitals; preparation of agricultural products packages at the logistic center of "Leket Israel"; purchasing and packaging of computers and tablets for children and youth in cooperation with the "Lend a Hand to a Special Child" Association; packaging of needed personal equipment for military units adopted by the Bank; making personal telephone calls to the senior population regarding their needs in cooperation with the "Surprise Cake" Association; help to farmers in fruit picking, and more.

In order to encourage and facilitate the expansion of volunteering, the Bank's Management has increased the quota of volunteer hours within the framework of working hours. At the same time, the Bank's Individual and Community Unit is working to initiate and provide access for employees to a diverse range of volunteer activities.

Many moving initiatives have been established in the shadow of the War, but there is no doubt that the most touching of which are "Keren Or", "Discount Operations Room" and the adoption of members of "Re'im Kibbutz". In each of these significant activities, employees of the Bank take part in voluntary activities.

"Discount Operations Room" - at the rehabilitation ward of the Sheba Hospital "Returning to Life". The Discount Group has established the "Discount Operations Room" with the aim of providing an immediate response to the urgent needs of IDF soldiers injured during the fighting, being treated in the rehabilitation wards of the Sheba Tel Hashomer Hospital. Within the framework of the Operations Room, which is being operated by the "Notnim Tikva" (Providing Hope) Association, response is given to urgent applications that are not found within the care boundaries of the IDF or the Ministry of Defense, starting with the purchase of vital equipment and up to economic assistance. Since date of establishment of the "Operations Room" volunteers of the Bank visit the rehabilitation wards once a week on a regular basis, some of them even more frequently. The volunteers visit the wounded, conduct joint activities, talk to them, inquire as to their needs and buildup personal relations. These frequent visits enable the creation of warm and direct connection with the wounded and their families, and even with released patients who visit the Hospital for treatment. This new initiative has created touching initiatives and cooperations, such as "Bar-Mitzvah" celebration at the Hospital for the brother of a severely injured patient in participation with and assistance of Bank employees, indulging patients with especially pampering dishes prepared by employees of the Bank, and more.

Adoption of the "Re'im Kibbutz". Employees of the Bank, by way of the Employees Representative Committee have adopted the members of the Re'im Kibbutz. As a first stage for the rehabilitation of the Kibbutz members, Bank employees pitched in to help in equipping the temporary residences of Kibbutz members who had moved to Tel Aviv. In addition, employees of the Bank have contributed their vacation payments in the amount of NIS 2.5 million.

ICC. ICC, together with other organizations, has helped distribute NIS 8 million to families evacuated from their homes by loading prepaid credit cards, at no cost. In addition, ICC has donated medicines, medical equipment, portable

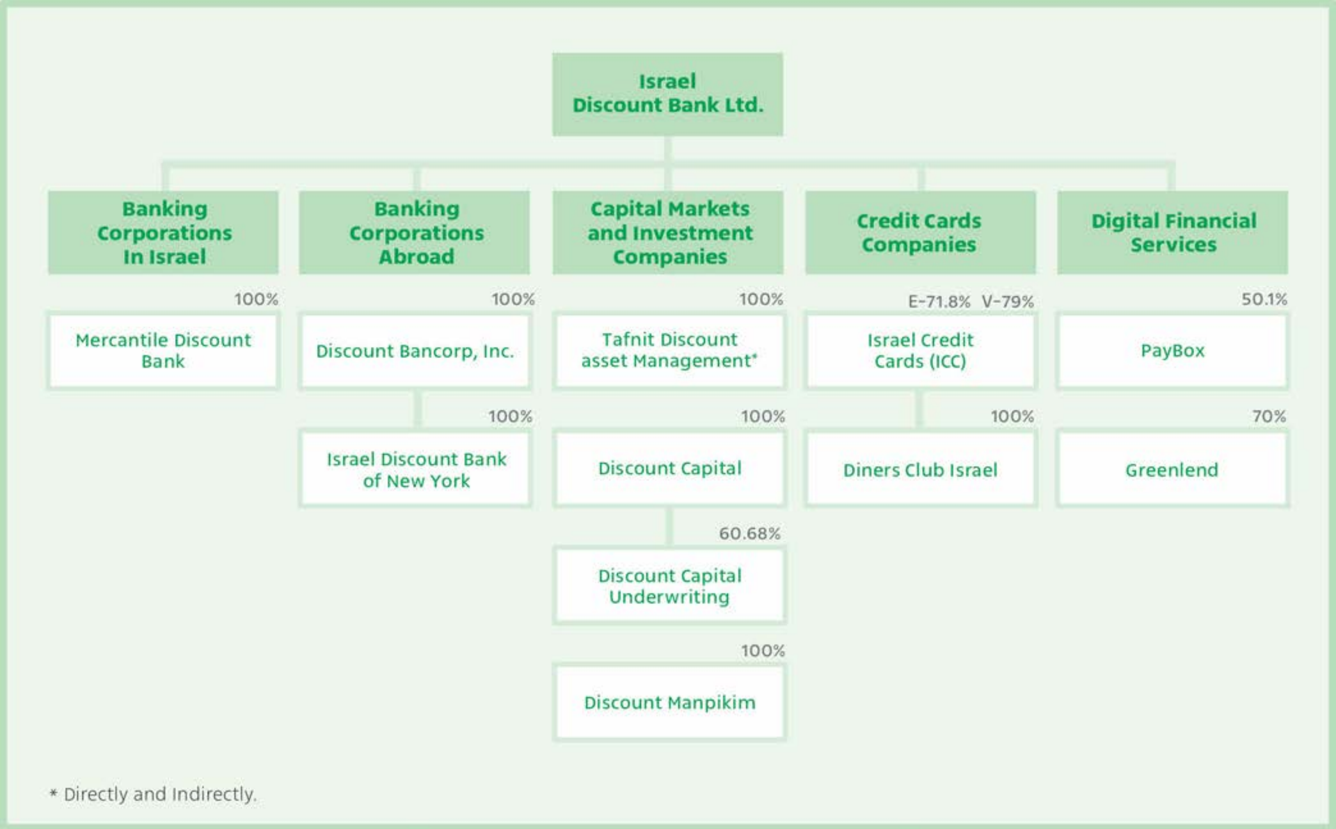
chargers and essential equipment to the fighters and volunteers of the rescue organizations. ICC has made financial donations to the residents of the communities surrounding the Gaza Strip, has encouraged its employees to engage in volunteer activities on account of work hours and has donated equipment and food to residents of the communities surrounding the Gaza Strip who have been evacuated from their homes.
The Discount Group's support for the community amounted at a date proximate to the date of the report's publication to approx. NIS 70 million.

'Keren Or' – Foundation in aid of children and youth harmed during the War

The Discount Group has established the 'Keren Or' Foundation for the designated support of children and young persons harmed in the conflict area during the War. The Foundation, established by Discount Bank and MDB will amount to an initial sum of NIS 50 million, and will engage in providing a wide scope and a holistic response and will work to provide a holistic long-term solution to the needs of suffering children and youth along the confrontation line in order to restore their personal and communal security and help them regain optimal functioning in their lives and to be leaders of change in the community.
The 'Keren Or' Foundation will operate for three years and will accompany children and youth aged 10-18 at seven centers: at the regional councils of Sdot Negev, Sha'ar HaNegev, Hof Ashkelon, and Eshkol, and in the cities of Sderot, Ofakim and Netivot.
The 'Keren Or' Foundation will be managed by a professional team that will determine a comprehensive action plan that will be formulated with the "Advisory Committee", which was set up specifically for the benefit of the Foundation, chaired by the Bank's President & CEO and its members are professionals from the fields of psychiatry, education, welfare, local authorities, and finance, and a representative from the communities surrounding the Gaza Strip. 'Keren Or' will be operated by the "Sprint for the future" Association and will provide response to varied needs, with the aim of enabling these children to return to optimal functioning in their life, by varied means: workshops for individual and collective forcefulness, enrichment and relaxation activities, relation to the community and social leadership activities, supporting studies and additional needs encountered during operations. For this purpose, the Foundation will operate in cooperation with the regional authorities and councils, alongside different factors in the community. The 'Keren Or' Foundation began operating in November 2023, and has defined four months of activity in each of the two major evacuation zones – the Dead Sea and Eilat. A series of resilience and empowerment workshops have been set which operates within the formal education framework (during school hours) and through afternoon activities in institutions where the children and youth are located, in schools, hotels, etc. The activity includes diverse workshops: phototherapy, empowerment through theater, challenging experiential activities (O.D.T.), a street art and painting workshop, challenging activities and cycling, sports empowerment, simulators and much more.
During the first three months of operation, more than 2,000 workshops took place in which thousands of children and youth participated through collaborations with various associations and bodies (Hamal Ezrahi, NATAL – Israel Trauma Center for Victims of Terror and War, Etgarim-Challenges, Invisible Album, etc.), local councils (those from which evacuees came and those accepting them) and staff members of the "Sprint for the Future" association.
Currently, an operating model is being built in cooperation with the regional authorities and councils, based on a resilience model that will focus on growth, proactive activity of youth through empowerment, leadership and education.
The operating model will include needs mapping processes, setting the activity frameworks, and more, and a process would be conducted in which tests regarding the framework of operations would be mapped and defined, as well as order of preference for identification of specific needs and use of funds of the Foundation.
The Discount Group allows the general public to contribute to the Foundation and undertakes to double the amount so contributed. Commitments to the fund, from the Discount Group and donors, totaled approx. NIS 52.20 million at a date proximate to the date of the report's publication.

Additional details regarding the business of the banking corporation and management thereof

Discount Group Structure



Control of the Bank - Bank having no Core Controlling Interest

As of December 3, 2013, the Bank became a bank with no core controlling interest.

The Banking Law (Legislation amendments). On March 19, 2012, the Banking Law (Legislation amendments), 2012, was published in the Official Gazette, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein. Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. According to these instructions, the appointment of directors in a banking corporation having no core controlling interest shall be made by the annual meeting of shareholders. The candidates are proposed by a statutory committee established for the appointment of directors in a banking corporation. Furthermore, candidates may also be proposed by shareholders who hold over 2.5% of the share capital of the Bank, and who comply with certain conditions determined in the instructions.

Bank Holding Permits to Entities Managing Customer Funds

The Banking (Licensing) Law requires that a holding permit be obtained from the Governor of the Bank of Israel for any holding in excess of 5% of a banking corporation's means of control. On June 16, 2016, the Supervisor of Banks published an updated policy relating to permits for holders of control in bodies that manage clients' funds (provident funds, insurers, mutual funds), whereby a holder of control in a body that manages clients' funds is permitted to hold a percentage that does not exceed 7.5% of the means of control in a banking corporation, subject to obtaining a permit from the Governor of the Bank of Israel and subject to the conditions prescribed therein. The total holdings of a recipient of a holding permit, that are not holdings for "clients", shall not exceed 5% of any class of the banking corporation's means of control. The total holding of any body that is controlled by a recipient of a holding permit shall not exceed 5% of any class of the banking corporation's means of control. All holding permits shall be granted for a set term, until December 31, 2019.
Following that stated above, the Supervisor of Banks published on September 29, 2016, an amendment to Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties". This amendment removes from the definition of "related party", entities which obtained a holding permit according to the new policy, and which the rate of their holdings exceeds 5% due to holdings on behalf of their customers.

Fixed Assets and Installations

Buildings and Equipment

At the end of 2023, the investment in buildings and equipment amounted to NIS 4,535 million, compared with NIS 3,904 million at the end of 2022, an increase of 16.2%. For details as to the Bank's investments in buildings and equipment, see Note 16 to the financial statements.
Establishment of the Discount Campus. In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC. Discount Leasing (71.55%), ICC (18.45%) and MDB (10%) have purchased land of an area of 21 dunam in the "1000 compound" in Rishon LeZion. The scope of building rights relating to the land amounts approx. to 133 thousand square meters, both above ground main and service buildings. In addition, an option for the purchase of trading rights, granted within a contract for the purchase of the land, has been exercised. In consideration of the land a total amount of NIS 135 million was paid. As part of the contract for the acquisition of the land from the Rishon LeZion Municipality, it has been specified that at least 25 thousand square meters will be constructed by the acquirers for its own purposes and that construction as stated, would be carried out within five years from date of approval of the construction plan and the blueprint for the division of the site. It has also been specified that the Group can require the Municipality to repurchase part of the building rights attached to the plot until the year 2024.
Since date of acquisition of the land and thereafter, different processes have been promoted for the establishment of the Campus, including completion of defining the vision of the Discount Campus, choosing the method of operation of the Group Campus, choosing a project manager, electing an architect and a planning team. The budget for the project was approved in the last quarter of 2018, and work began on digging and reinforcement of the walls. Foundation work and casting of the first floor of the project began in the second quarter of 2019. During 2020, work on the first floor and the skeleton of the basements was completed, and construction work on the upper skeleton started, concurrently with construction work of the computer installations. During 2022, construction was completed on the skeleton and the aluminum siding, and development projects were started, with this being concurrently with the continuation of the construction and adjustment projects, including internal construction and systems for the office and joint areas in the above ground floors, in the operating floor, in the underground parking area and in the computer installations. In addition, several companies were engaged for completion of the technological and physical infrastructure of the project. It is noted that preparations for the occupancy and operation of the project began already in the reported period, including with companies providing services in the various operational fields. In January 2023, a building completion certificate was received for the project. The relocation of the computer installations of

the Bank and of MDB was completed in the first half of 2023. A major part of the work was completed in the second half of the year, and so was the process of occupancy of the Bank premises. In view of the sale of the share of ICC in the project, the stage of relocation of additional units of the Bank to the ICC building is expected to be completed during the first half of 2024.

The Bank estimates that the cost of establishing the Group's Campus that had been assessed at approx. NIS 1.8 billion, is expected to increase to approx. NIS 2 billion. Of this amount, approx. NIS 1,920 million has already been invested by the Group until December 31, 2023. The balance of the commitment for the project as of December 31, 2023, amounts to NIS 61 million (all amounts respecting the establishment of the Campus do not include VAT).

The Bank is of the opinion that the impact on capital adequacy of the Group Campus construction project is not material, as the project was partly financed by the sale of existing properties.

Focus points for 2023-2024. According to the strategic plan of the Discount Group, the Bank performs operations designed to ensure the efficient and effective utilization of real estate properties, including improved leasehold terms, replacement of rented premises, etc. Alongside this activity, in view of the relocation to the Discount Campus, the Bank continues the action for the sale of the yet unsold Head Office properties, this in accordance with market condition. Thus, the data relating to the real estate assets of the Bank in 2023 include for the first time, the Discount Campus property together with the yet unsold Head Office properties.

Following are detailed data of the real estate areas in use by the Bank.

Floor area at the disposal of Bank branches

As of	Sq. Meters	Number of brunches[1]	Average Sq. meters per branch
December 31, 2023	48,627	99	491.2
December 31, 2022	48,566	97	500.7
December 31, 2021	50,034	97	515.8
December 31, 2020	52,900	103	513.6
December 31, 2019	53,457	103	519.0

Footnote:

(1) Excluding the Toucher Branch.

Distribution of all floor area at the disposal of the Bank

	As of December 31				
	2023	2022	2021	2020	2019
Freehold	[2]149.4	[1]57.8	90.7	91.2	92.8
Leasehold	44.6	85.7	51.5	53.0	52.7
Total	**194.0**	**143.5**	**142.2**	**144.2**	**145.5**

Footnotes:

(1) The material change in the premises breakdown in 2022 stemmed from the sale of the premises on Herzl Street and at 17 Yehuda Halevi Street and the transition to renting these properties.

(2) The material change in the premises breakdown in 2023 stemmed from the operating of Discount Campus.

Gain on sale of assets. In 2023 a gain from the sale of properties of NIS 240 million was recorded, net of the tax effect, compared with NIS 326 million in 2022.

Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus. For details, see Note 16 K to the financial statements.

Accessibility for Handicapped Persons

According to the Equal Rights for Handicapped Persons Law, the Bank has appointed an Accessibility Coordinator which leads and coordinates the accessibility operations at the Bank. The Bank conducted a "Discount accessible" project, within the framework of which, the Bank made accessibility modifications according to the regulation, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service. In addition, accessibility modifications have been made at the Internet websites and on the cellular applications, training sessions are held to the Bank's employees on the accessibility subject as well as reviews and periodic tests according to requirements of the law and regulations including the periodic examination required under Regulation 28. The Bank takes action to eliminate accessibility gaps, once they become known.
During the reported period, an action and an application for its approval as a class action had been filed against the Bank claiming inaccessibility to one of the Bank branches. Furthermore, an action and an application for its approval as a class action had been filed against ICC, claiming inaccessibility to its Internet website. Both actions are not material.

Information and Computer Systems

General

The information systems stand at the core of the Bank's operations and comprise the backbone on which the Bank's operations are based. Direct banking services are provided by the Bank through a variety of lanes: Internet sites, mobile apps, information stations, automatic teller machines, computerized vocal response and more. These services interface with the overall computer system for the purpose of obtaining and updating of information, and are protected by most advanced technologies of data protection.
Most of the various computer systems serve both the Bank and MDB.
Over the years the Bank has developed qualitative and reliable computer solutions with respect to all business areas in which the Bank operates. Solutions that had been developed with respect to core systems are among the most advanced existing at present at banks in Israel. These systems are capable of serving the Bank for many years to come, subject to maintenance services being provided at an appropriate level. The Bank continues to upgrade and replace systems according to its needs, according to preferences of the budget and strategic plans.
For details as to the cost of in-house development of computer software, see Note 16 H to the financial statements.
Major suppliers. The Bank has a large number of major suppliers from Israel and abroad in the field of information systems and their development. The Bank has no significant dependence on suppliers, with the exception of IBM, Oracle, Microsoft and MED1. These companies have engagements with the Bank through their representatives in Israel.

Locations of the Operation

The technological array is operated from two different sites which are far apart from each other. The sites provide backup for each other and are capable of working independently.

Principle Projects Conducted in 2023

1. Infrastructure projects - continuing the upgrading of the Bank's computer infrastructure to new and advanced computer infrastructure. Extending the generic infrastructure to cloud computing.
2. CRM and interaction with customers – completing the transition of the retail CRM to cloud computing, continuing improvement of banker experience, increasing efficiency of work processes and the spreading of the platform, converting additional processes of the Operations Division and remote signature.
3. Direct channels – the business abilities in the different business worlds have been enlarged on the application and

on the Internet websites, for private and business customers, upgrading of websites, increasing ability for private customers to conduct all transactions on the digital, addition of abilities with respect to digital mortgages, continuing the development of aggregation, continuing the development of the digital opening of an account.

4. Core projects – replacement of core systems in the dealing room, continuing the development of a credit system for small businesses, upgrading of the tax server, improving and upgrading systems for the capital market operators. Developments in accordance with the Bank of Israel outline in view of the "Iron Swords" War.
5. Cyber and data protection – development of proactive defense abilities, integration of Big Data analysis capabilities and orchestration and automation capabilities with the aim of increasing the effectiveness of the response provided by information systems. Development of abilities for the prevention of fraud.
6. Projects intended to ensure compliance with regulatory directives on pension consultation interface, response to Proper Conduct of Banking Business Directive No. 460 yields on securities, replacing the infrastructure for encrypted email, open banking and a banking identity card.

Principle Projects for 2024

1. Infrastructure projects – continuing to upgrade the Bank's computing infrastructure to new and advanced computing infrastructures. Continuing the extension of the generic infrastructure to cloud computing.
2. CRM and interaction with customers – completing the retail CRM's transition to the cloud, continuing to improve the banker experience, making the work processes and the platform rollout more efficient, converting other processes in the operating division, and Chat Bot correspondence.
3. Direct channels – expanding business capabilities in the various business spheres on the app and on the Internet websites for private and business customers, upgrading the websites, adding the capability for private customers to digitally execute the full range of transactions, adding digital mortgage capabilities, more widespread use of aggregation, continued development of account opening on the digital and broader functionality in digital consulting.
4. Core projects – replacing core systems in the dealing-room, continuing to develop a credit system for small businesses, improving and upgrading systems for capital market players, developing an online interface with the Registrar of Companies and replacing the market-making system.
5. Cyber and data protection – continuing the development of proactive defense abilities, integration of Big Data analysis capabilities and orchestration and automation capabilities with the aim of increasing the effectiveness of the response provided by information systems. Expanding fraud prevention capabilities.
6. Projects intended to fulfill regulatory instructions – Request2Pay, sharing of documents between banks, Proper Conduct of Banking Business Directive No. 451, the Proper Conduct of Banking Business Directive on service, open banking, production of Form 867, and a banking identity card.

The Bank's investment budget for 2024 for information systems and computerization, including for information system development projects, amounts to NIS approx. 447 million (NIS 413 million in 2023).

The contents of the above section constitute a forward-looking information based on past experience in everything related to system development and technological abilities, the investment required for the development of new systems and adaptation of existing systems in order for them to comply with regulatory demands and the Bank's business requirements. The above is also based on regulatory provisions existing at date of publication of the Annual Report (even though they have not as yet become effective) and provisions expected by the Bank to apply, based, inter alia, on drafts published by the various Regulators. The above is also based on the Bank's development programs existing at date of publication of the Annual Report, and on business intentions, the realization of which would require the development of supportive computer systems.

Legislative and regulatory changes unknown at the date of publication of the reports, including changes in the details of existing initiatives and drafts, technological developments and/or activities of competitors bringing about changes in customer demands and expectations, as well as macro developments in Israel and in the world, may bring about changes in the assessments or in the ability to carry out the Bank's plans at date of publication of the reports.

ICC

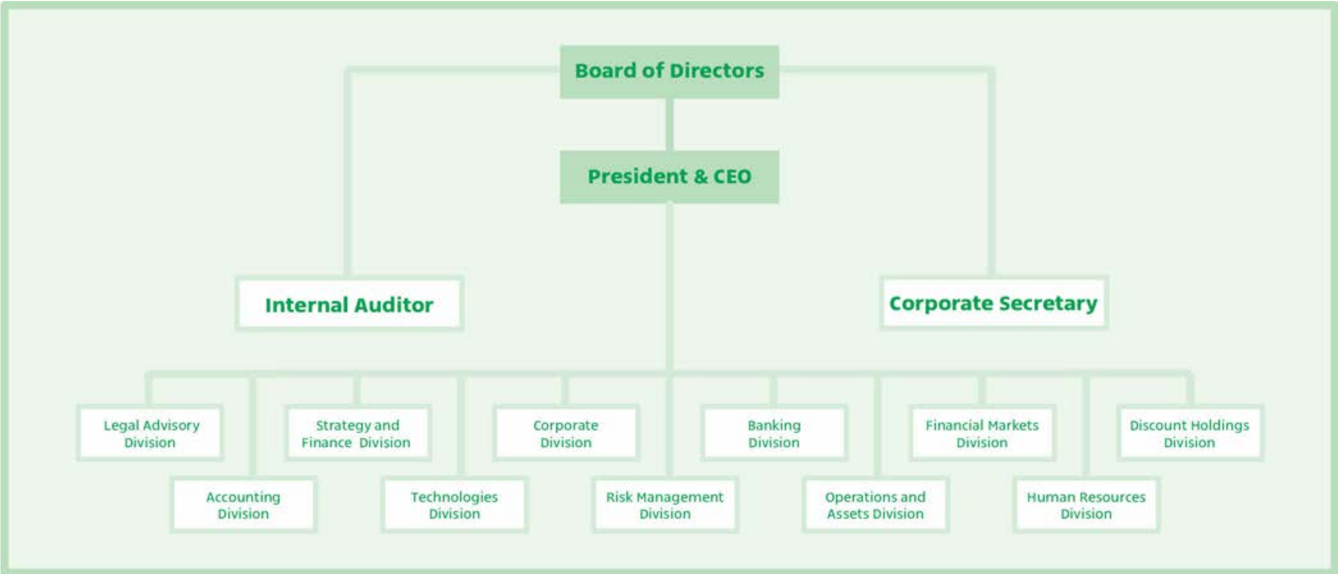
On April 5, 2017, ICC and HPE Software Israel Ltd. signed an agreement for the supply of IT services to the company, within the framework of a multiyear project to replace the company's core system infrastructure. The objective of the project is to improve the business continuity in the core activities, paying attention to the lifecycle termination date of the existing technological infrastructure, and its replacement with an advanced infrastructure with a long-term horizon. The project is now in advanced stages of handover testing and proceeding to focus on business testing, testing vis-à-vis various external factors and practicing the processes for putting the infrastructure into operation. Completion of the project is expected until the end of 2024. The scope of the entire project, including the internal inputs to be invested therein, is estimated to amount to approx. NIS 250 million.

Intangible Assets

Trademarks and brand names. The Bank has exclusive intellectual property rights in the following trademarks that are duly registered with the Registrar of Trademarks, and in the label accompanying each of them: "Israel Discount Bank Ltd.", "Discount Bank", "Discount" and "Israel Discount Bank", which include the Bank's logo. In addition, the Bank registers from time to time, for the purpose of its business and marketing operations, names of services and products such as: "Key", "Discount key", the trademark of the key chart, etc. In December 2018, the Bank registered the trademarks "PayBox", "PayBox App" as well as the logo. Ownership of these trademarks has been transferred to PayBox Company following its incorporation as an auxiliary corporation. During January 2022, the Bank also registered the "Discount Tech" trademark, and in October 2023 the Bank registered the trademark "Greenlend".
ICC developed a distinct symbol in order to differentiate it from the other VISA issuers, using the brand name "ICC" or "Cal". Furthermore, ICC owns many registered trademarks in Israel, including "ICC", "Cal" "Cal Choice".
Furthermore, the Bank's subsidiary companies own trademarks, related brand names and slogans registered for the purpose of their business and marketing operations.
Licenses and franchises. The Bank and ICC have the status of a "principal member" in the International VISA Organization, which grants them the license to use the trademarks of VISA as well as the right to issue and clear credit cards under this brand name in Israel. The Bank and ICC have the status of a "principal member" in the MasterCard Worldwide organization, which has granted them licenses to use the "MasterCard", "Cirrus" and "Maestro" trade marks in Israel as well as issuance and clearing licenses for credit cards under these brands in Israel. The International Diners Organization has granted Diners in Israel the exclusive franchise for the use of the brand "Diners" trade mark and for operating issuance and clearing services for Diners credit cards in Israel. The franchise is extended from time to time, and recently until December 31, 2029. See Note 36 E above.
ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.
Software. The Bank also has intellectual property rights in designated software systems and various modules used in its business, which the Bank develops and/or acquires in the course of its ongoing operations for its own use and/or the use of subsidiaries and affiliates.
Data bases. The Bank and its subsidiaries have data bases regarding their various fields of operations relating mostly to their customers and employees.

The Human Capital

Organizational Structure Chart



Management of the Human Resource - General

Principal Activities in 2023

Transfer to the Discount Campus. Completion of preparations from the aspect of human resources regarding the transfer to the Discount Campus location, including formation and integration of a culture and work environment intended to provide employees with a better and advanced work experience. Escorting managers and employees during the relocation period – the emphasis moves from establishing and stabilizing the primary employee's experience at the Campus to a continuous, intense and optimal work experience. This, with the aim of ensuring a smooth relocation and maximal business continuity, as well as minimizing risk areas that might lead to resignation of employees.
Support of employees during the "Iron Swords" War period. For details, see above "The "Iron Swords" War" in the section "Material trends, occurrences, developments and changes".
Bonding and employee experience. For details, see below "Organizational Culture".
Signing of a collective labor agreement. For details, see below "Labor Relations".

Challenges for 2024

- **Preparations for transformation in traditional banking and for the challenges of the future**;
- **Effective management of the labor force and its cost.** Strict and restraining management of the labor force and its cost, with the aim of ensuring the attainment of goals, as defined in the strategic plan, for the reduction in the labor force, and respectively, creating significant efficiency;
- **Bench depth and key personnel.** Initiating a project that will provide a cross-organizational response to all the Bank's needs on these topics, including updating the existing methodology. For additional details, see below.

Labor Force and Salary Expenses

There were 4,762 employees in full-time positions in the Bank in Israel at the end of 2023, compared with 4,671 at the end of 2022, an increase of 1.9%. In 2023 the average monthly number of employees, based on full-time positions, in the Bank dropped and amounted in 2023 to 4,714, as compared to 4,627 in 2022, an increase of 1.9%.

There were 8,404 full-time positions in the Group in Israel and abroad at the end of 2023, compared with 8,207 at the end of 2022, an increase of 2.4%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2023, was 8,363, compared with 8,113 at the end of 2022, an increase of 3.1%.

Labor force data of the Group and the Bank

	Employees					Positions(1)									
	As of December 31					As of December 31					Monthly average in				
	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
The Bank in Israel	5,371	5,088	5,044	5,085	(2)5,447	4,762	4,671	4,557	4,607	4,905	4,714	4,627	4,556	4,889	4,951
Domestic subsidiaries	3,482	3,407	3,310	3,246	3,467	3,035	2,951	2,924	2,855	3,040	3,011	2,932	2,846	2,982	(3)3,025
Group total in Israel	**8,853**	**8,495**	**8,354**	**8,331**	**8,914**	**7,797**	**7,622**	**7,481**	**7,462**	**7,945**	**7,725**	**7,559**	**7,402**	**7,871**	**7,976**
Overseas subsidiaries	648	630	545	557	558	607	(3)585	554	565	564	638	(3)554	555	560	560
Group total overseas	**648**	**630**	**545**	**557**	**558**	**607**	**585**	**554**	**565**	**564**	**638**	**554**	**555**	**560**	**560**
Group total overseas and Israel	**9,501**	**9,125**	**8,899**	**8,888**	**9,472**	**8,404**	**8,207**	**8,035**	**8,027**	**8,509**	**8,363**	**8,113**	**7,957**	**8,431**	**8,536**

Footnotes:

(1) The number of positions includes conversion into overtime positions with the addition of positions of software house employees who provide services to the Bank and after deduction of positions payroll cost in their respect has been capitalized to fixed assets.

(2) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank's workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from "expenses" to "salaries".

(3) Improvement in computing of the data.

Cost per position, in NIS thousands, on the basis of costs reported in practice

	2023	2022	2021	% change 2023 compared to 2022	% change 2022 compared to 2021
The annual average direct cost(1) per employee position in the Bank in Israel	312	297	303	5.1	(2.0)
The total annual average cost(1) per employee position in the Bank in Israel	459	434	448	5.8	(3.1)
The average annual overall payroll cost(1) per employee of the Group in Israel and abroad	460	(2)440	436	4.5	0.9

Footnotes:

(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

(2) Improvement in computing of the data.

The average annual cost of the direct wage for an employee position at the Bank in Israel, increased in 2023 by a rate of 5.1% (see Table above). With elimination of awards, the average annual cost of the direct wage for an employee position at the Bank in Israel, increased in 2023 by a rate of 4.2% (see Table below).

The total average annual cost of an employee position at the Bank in Israel, increased in 2023 by a rate of 5.8% (see Table above). Eliminating the effect awards, the total average annual cost of an employee position at the Bank in Israel, increased by a rate of 5.1%, compared with 2022 (see Table below).

It should be noted that, in the above and below tables, the cost per position does not include salary expenses, which, according to the Public Reporting Directives, have been classified as "Other expenses".

Cost per position, in NIS thousands, eliminating certain components

	2023	2022	2021	% change 2023 compared to 2022	% change 2022 compared to 2021
The annual average direct cost[1] per employee position in the Bank in Israel - excluding awards and reversal of excess provisions[2]	263	253	241	4.0	5.0
The total annual average cost[1] per employee position in the Bank in Israel - excluding awards and reversal of excess provisions[2]	398	379	371	5.0	2.2
The average annual overall payroll cost[1] per employee of the Group in Israel and abroad - excluding awards[2]	402	[3]379	368	6.1	3.0

Footnotes:
(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.
(2) See the effects of certain components on salaries and related expenses.
(3) Improvement in computing of the data.

Total income per position In NIS thousands

	2023	2022	2021	2023 compared to 2022	2022 compared to 2021
Total income at the Bank to an average employee position at the Bank	1,903	1,533	1,215	24.1	26.2
Total income, consolidated to an average employee position at the Group in Israel and abroad	1,922	[1]1,595	1,318	20.5	21.0

Note:
(1) Improvement in computing of the data.

Human Resources according to Segments of Operation

The positions stated according to segments of operation include positions of direct employees of the segment and positions of head office staff of various levels, the cost of their employment had been allocated to the segment. The calculation of the number of positions, as stated, is based on a model for the allocation of costs used by the Bank, as adjusted in the circumstances and on the basis of assessments.

Human resources according to segments of operation

	Domestic operations								International operations	
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	total International operations	total
	For the year ended December 31, 2023									
Average number of positions in the segment	4,169	161	1,771	328	788	81	427	7,725	638	8,363
	For the year ended December 31, 2022									
Average number of positions in the segment	3,946	114	1,796	361	829	85	428	7,559	[1]554	8,113

Footnote:
(1) Improvement in computing of the data.

Retirement plans

2022 Retirement Plan – Discount Bank. For details, see Note 23 H to the financial statements.
2023 Retirement Plan – MDB. For details, see Note 23 I to the financial statements.

Labor Relations

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are consummated mainly in negotiations between the Bank's management and the employees' representatives.
Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd.", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a wide base outlining and incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During the last decades, dozens of collective labor agreements were consummated in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter. In an agreement dated December 23, 2021, the validity of the Charter was extended until December 31, 2026, subject to changes, the principal of which is the conversion of employees from a "temporary" status to a "stable" status.
Signing of a collective labor agreement. A collective labor agreement was signed on November 12, 2023, between the Management of the Bank and the representative committee of employees, regarding changes to the collective agreement of December 23, 2023, in the matter of wages and awards, as well as additional agreements regarding the compensation of managers and the advancement of clerks to the managerial echelon at the Bank. In accordance with the agreement, the percentage wage increase by stages applicable to tenured employees of the managerial echelon, which were due to be paid in July 2023 and in July 2024, have been consolidated into one stage of a shekel wage increase payable with the salary for April 2024. It was further agreed on the consolidation of the two stages for the payment of the award in respect of changes in the Labor Charter, which were due to be paid to managers in July 2023 and in July 2024, so that a consolidated differential award, divided into four grades, would be paid to managers or a part of them in April 2024.

Principal Categories with respect to Employment Conditions

The Bank's employees are classified into four main categories for purposes of employment conditions:
Tenured employees. The employment terms of tenured employees are arranged, as stated, according to the Labor Charter, special collective labor agreements and other employment arrangements.
The agreement with respect to extending the validity of the Labor Charter dated December 23, 2021, committed the Bank to convert 300 employees to the status of "tenured employees", this during the period of ten years from date of signing the agreement.
Temporary employees. Until date of signing the agreement with respect to extending the validity of the Labor Charter dated December 23, 2021, several types of temporary employees had existed at the Bank, including tellers and direct banking employees (a temporary period of five years), temporary employees (a temporary period of four years), temporary computer employees (a temporary period of seven years), IT computer employees (employment of 250 computer employees with no time limit).
As from date of signing the agreement, the said classification of temporary employees as existed until that date was abolished, including all contractual stipulations relating to them. Instead, a uniform temporary period was determined at the Bank (relating also to new employees recruited by the Bank) of one year for all employees, and of two years for employees of the direct channels management Subdivision.

Steady employees. The agreement of December 23, 2021, states that at the end of the temporary period, to the extent that employment of the temporary employee had not been terminated, all these employees would be converted to the status of "steady employee" with no time limit to the period of employment, in a way allowing them to advance and develop in the organization. The agreement also states that such employees, based upon their capabilities and suitability for office, would be able to fulfill managerial duties at the Bank. It is noted, that the said collective labor agreement states that the quota of steady employees shall not exceed 2,000 employees, this within a period of ten years from date of signing the agreement. The steady employees will be unionized by way of the representative committee of employees and the Federation of Labor, though the Labor Charter and the agreements signed under it, which apply to employees of the "tenured" status, would not apply to them. The terms of employment applying to employees of the "steady" status shall be exclusively determined by the Bank's Management. Notwithstanding this, it is determined that concurrently with wage negotiations, which would be held between the Bank's Management and the employee representative committee with respect to "tenured" employees, wage negotiations would also be held between the Bank's Management and the employee representative committee with respect to the wages of "steady" employees.

In addition, the Bank's Management shall provide to the representative committee of employees a monthly cultural package contribution for each "steady" employee, similarly to the contribution provided by the Bank's Management for each "tenured" employee.

Personal employment contracts. Employees engaged under personal employment contracts sign, prior to their engagement with the Bank, a personal contract, and the provisions of the labor charter and the collective agreements, which apply to "tenured" employees, do not apply to them. The employee population engaged under a personal agreement includes the members of the Bank's Management as well as an additional quota, as determined in the agreements, at the discretion of the Bank's Management. The agreement dated December 23, 2021, extending the validity of the Labor Charter, states that "tenured" employees and "steady" employees appointed, as from date of signing of the agreement, to the office of Subdivision Manager (excluding a number of appointments as stated in the agreement), shall be transferred to the status of "personal employment agreement" employees. As of December 31, 2023, the Bank employed 215 personnel (including members of management) under personal employment agreements (December 31, 2022: 227 employees engaged under personal contracts).

In addition, the Bank acquires services of manpower company employees and software houses. These employees are engaged mainly in software development tasks.

Summary of employment data in the Bank in the various categories and the changes therein

	As of December 31,					Change			
Employees	2023	2022	2021	2020	2019	2023 compared to 2022	2022 compared to 2021	2021 compared to 2020	2020 compared to 2019
Tenured employees under personal contracts and members of management	2,854	2,998	3,055	3,147	3,642	(144)	(57)	(92)	(495)
Temporary employees	733	(2)610	(1)1,397	1,317	1,133	123	(787)	80	184
Steady employees	1,312	990	-	-	-	322	990	-	-
Software house	353	359	(1)441	(1)486	(1)507	(6)	(82)	(45)	(21)
Total	**5,252**	**4,957**	**4,893**	**4,950**	**5,282**	**295**	**64**	**(57)**	**(332)**
Additional – employees on unpaid leave and maternity leave	119	131	151	135	165	(12)	(20)	16	(30)
Total	**5,371**	**5,088**	**5,044**	**5,085**	**5,447**	**283**	**44**	**(41)**	**(362)**
Positions	2023	2022	2021	2020	2019				
Tenured employees under personal contracts and members of management	2,876	3,050	3,115	3,206	3,709	(174)	(65)	(91)	(503)
Temporary employees	652	598	1,411	1,328	1,162	54	(813)	83	166
Steady employees	1,257	993	-	-	-	264	993	-	-
Software house	307	330	396	479	395	(23)	(66)	(83)	84
Total	**5,092**	**4,971**	**4,922**	**5,013**	**5,266**	**121**	**49**	**(91)**	**(253)**
Of which positions of Bank employees the cost of which has been capitalized to fixed assets	189	169	189	212	153				
Of which positions of software house employees of which has been capitalized to fixed assets	141	131	176	194	208				
Total positions before of which has been capitalized to fixed assets	**4,762**	**4,671**	**4,557**	**4,607**	**4,905**				

Footnotes:

(1) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank's workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from "expenses" to "salaries"

(2) As of December 31,2021,the bank employed 933 employees having the status of 'stable employee', a status determined within the framework of a new collective labor agreement signed on December 22, 2021. At the beginning of 2022, the Bank started to integrate the change in its systems.

Compensation Plan for Members of the Bank's Management

The Bank approved an awards plan for Officers for 2023-2025, according to the compensation policy for officers of the Bank, as approved by the Bank's General Meeting of Shareholders of February 2023 (see Note 23 G to the financial statements). For details regarding the awards actually paid to Members of the Bank's Management in the years 2021-2023, see Note 23 G, and Note 35 G, respectively.

Equity compensation for officers and senior employees

On June 27, 2022, the Bank's Board of Directors approved an outline for the granting of up to 10,000,000 nonmarketable share options to offerees, at no cost, each of which would be exercisable, upon fulfillment of certain terms, into one registered Ordinary A share of the Bank of a par value of NIS 0.1, subject to adjustments (hereinafter: "the Original Outline" and "the pool", respectively). On September 11, 2023, the Bank's Board of Directors decided to update the Original Outline and increase the number of options that can be granted pursuant thereto, so that the total quantity will amount to 13,000,000 options, which include the total number of options allotted according to the Original Outline, as well as to allow the allocation of options according to the Revised Outline also to officers and employees of the Bank's related companies.

On several dates during 2022-2023 and in January 2024, the Bank's Board of Directors approved an actual grant of options from the pool, to Executive Vice Presidents and senior managers reporting to VP's, engaged by the Bank under personal employment agreements. The aim of granting stock options is to remunerate officers and managers for their work and contribution to the Bank, and in order to maintain them for a long period of time, while creating appropriate incentives and relating them to the goals of the Bank, all this within the restrictions of the Remuneration of Officers of Financial Corporations (Special permit and the non-deductible Tax wise of exceptional compensation) Law, 5776-2016, and while maintaining the Bank's risk management framework.
For additional details, see Note 24 D to the financial statements, the amended outline published by the Bank on July 13, 2022 (Ref. No. 2022-01-089110) and the amended outline published by the Bank on September 12, 2023 (Ref. No. 2023-01-105729), the details contained therein in this matter are presented hereby by way of reference.

Labor Relations of the Principal Subsidiaries

ICC. On June 11, 2019, a special collective agreement was signed by ICC, the New Federation of Labor and the national committee of ICC employees, which is effective from January 1, 2019 through December 31, 2022. An agreement was signed on September 22, 2022, whereby the move of ICC's employees to the Discount Campus had been arranged. Within this framework it was established that in the course of 2023, ICC will pay to its entitled employees a onetime award for their consent to the move to the Discount Campus and the changes involved in such move. The total amount of the award is estimated at approx. NIS 25 million, most of which would be recognized in the financial statements for 2023. In addition, arrangements were made for remote work by ICC employees. Moreover, the effective period of the existing collective labor agreement was extended to December 31, 2023.
MDB. The labor relations between MDB and its employees, other than employees with a personal contract, are based on a web of collective agreements dealing with different topics.
The Management of MDB and the national committee of employees of this bank signed in December 2018, a wage agreement for the years 2019-2023, which includes new and significant items. The essence of the agreement includes: detachment of the wage, work terms, and related benefits of MDB from those prevailing at Bank Leumi during the agreement period; for the said detachment, the employees are to receive a onetime award amounting to 2.5 monthly salaries; a wage increment at the rate of 3.1% per year (excluding a seniority increment of 0.8%), for each of the years covered by the agreement; a gradual updating of the minimum monthly wage used for computing severance pay.

Compensation Policy in a Banking Corporation

Instructions in the matter of the compensation policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a Proper Conduct of Banking Business Directive in the matter of compensation in a banking corporation as updated from time to time (hereunder: "The Directive"). According to the instruction, the Bank's Board of Directors has to approve, at least once in every three years, a compensation policy, following the recommendation of the Compensation Committee the compensation committee, as well as determine principles for a Group compensation policy, which comply with the requirements stated in the Directive is in addition to the provisions of the Companies Law, 5759-1999, and the provisions of the Compensation of Officers of Financial Corporations Law (special approval and the non-deductibility tax wise of exceptional compensation), 5776-2016 (see above).
Compensation policy for Officers of the Bank. See Note 23 D and E above.
Employees compensation policy. In March 2023 the Bank approved an updated compensation policy for all employees of the Bank has been approved, including for key employees, as well as the principals of group compensation policy.
For further disclosure in the matter of "compensation", see the document "Disclosure according to the third pillar of Basel and additional information on risks", available for review on the Internet.

Development of Human Resources

Managers' development programs

The main focus in 2023 was the integration of the leadership model with an emphasis on the intermediate level ("core managers"). In-depth training was held for serving managers for the purpose of aligning skills and leadership concept at the Bank, and the training of the "key manager" continued, placing emphasis on key and promoting dialog processes with employees. In addition, the basic ongoing training in management for team leaders continued, along with team development and guidance and advice for managers at various career crossroads.
In 2023, mentoring training was launched, taking the view that managers who accompany managers in the organization create much more bonding for both the mentor and the mentee.
During the year, manager development also took place in the leading forum, at regular quarterly meetings.

Bench depth and key personnel

During 2023, the following steps were taken to address the issue of bench depth:

- The Banking Division started a program for reserve branch managers. The program covers the training of about 20 employees who will form a managerial reserve at branches;
- The Corporate Division is currently starting a program for customer relations managers that will constitute a significant managerial cadre for the division;
- The Technologies Division runs a 9Box program whose aim is to spot talent in the division and the candidates for promotion.

As part of the work done to examine the competence of the Bank's credit personnel, work plans were defined to improve the competencies of credit personnel, including the creation of a reserve.

Performance assessment and feedback

The process in 2023 was based on the leadership model. A summary verbal assessment for all Bank employees was based on the extent to which the annual goals were achieved, the manner of performance, including the realization of the Bank's values and contribution with respect to colleagues in the unit and with respect to similar positions, the identification of populations belonging to unique categories, and the defining of forward-looking goals, including reference to short-term and long-term development directions and the setting of development goals. Within the framework of the process, outlier populations were identified – superior performers (some 10 out of all the employees) and employees that needed to improve their performance (approx. 5%). The process covered approx. 99% of the Bank's.

Professional Training

The study program in 2023 was drafted and implemented to actualize the concept of study as a way of life that supports the organizational culture of personal development and career, and of course with the objective of achieving the Bank's vision and goals and to bring value to its stakeholders. In view of the "Iron Swords" War, only training sessions defined as essential for the business continuity of the Bank, were conducted in the fourth quarter of 2023.
The work plan was focused on providing a response on three central axes:
Maintaining professional qualifications – With the aid of an extensive process for mapping knowledge and expertise gaps, a needs clarification was conducted in various units. In addition, the process of mapping occupational competencies for mortgage consultants, project managers and credit coordinators in the Corporate Division has continued. In accordance with the gaps identified, a training response was provided to improve professional and personal competence. In 2023, emphasis was placed on professionalism in credit, for service teams, regulatory aspects and the development of personal skills to cope in the new era. Comprehensive e-learning was conducted for the

service teams in the Banking Division through a computerized game, in order to improve the competence and knowledge of existing banking service teams.

Providing a solution for employee training for the position – Basic banking training for new employees, focusing on credit positions – business coordinators and business bankers, education for the entry of a new economist taking to a position.

Providing response and support for strategic projects – as part of the business strategy and the realization of the vision of "being the best bank for its customers", numerous hours have been devoted to studying and assimilating the customer experience concept in the Banking Division, growth in the business of the Corporate Division, the move to the Campus, and the pilot rollout of the first business tribe in the agile concept.

As part of the process for deploying an organizational culture, in 2023 activity continued for creating diverse study content for self-selection by employees, combining the work concept at the Campus as part of culture, open and transparent communication and the integration of the leadership model for managers.

In addition, a new learning system was launched, a new module in the existing ERP system, which will assist in improving the employee's learning experience, will bring together all the learning options in a single location, will allow the creation of study communities, and automated study-recommendation system and dashboards for managers that will enable them to track the studies undertaken and to encourage their employees' development.

The measure of the rate of employee participation in learning rose to 85% in 2023, compared to 80% in 2022. Learning days totaled 34,769, compared to 30,141 learning days in 2022. In addition, independent online learning was conducted, resulted in 23,056 interactions in 2023, compared to 21,900 interactions in 2022.

Organizational Culture

One of the layers of the Bank's strategic plan is to build organizational strength through deploying a winning organizational culture that supports constant improvement, performancism, excellence, and a high level of connectivity. Accordingly, in the third quarter of 2020, the Bank launched an organizational culture project, within the framework of which, five project teams were set up on the following topics: the employee experience and connectivity, strengthening managers, professional qualification, organizational optimization, and the culture of performance and change.

The focus in 2023 was on the following subjects: development of leadership in the Discount spirit, employee experience, connectivity, and development and career. The organizational workplan is defined and executed both at the Bank level and also at the divisional level and is expressed in various management forums, meetings with employees on different platforms, expansion of the learning and development programs and handling the employee experience in various processes.

Internal communication. The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment. With a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2023, including: "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.

Bonding and employee experience. Following an employee experience survey conducted in the third quarter of 2022, the findings thereof being analyzed during the fourth quarter, a rich and detailed work plan for the improvement of bonding and employee experience has been devised. In the management and leadership field, the training of managers of all grades has been expanded in addition to the management forums at the Bank and division levels (the "Leading Form" and the "400 Forum"). Wide scope organizational processes have been communicated on a structured communication cascade, by which managers obtain all required information, both through meetings and by detailed kits providing organized response to employees.

A large leadership convention was held in the third quarter of 2023, in which some 400 of the Bank's managers took part, and which introduced values of the leadership model in an experiential and attracting manner. In the area of employee experience, the position of some 70 Bank clerks, who had fulfilled managerial duties for over one year, was formalized in September 2023 by being appointed managers at the Bank.

In view of the October 7 events and the "Iron Swords" War, the employee experience review, planned for the middle of October, was not conducted in the fourth quarter of 2023, being postponed to the third quarter of 2024.

Various issues raised by the survey, which impaired employee experience, were treated in 2023. These related to matters of presence at work, "iron days", working days combining work at home and at the office, solving the issue of employee meals at the branches in parallel to catering services at the Discount Campus and the possibility of reporting presence at work in an independent and friendly manner by means of an Application. In addition, an officer in charge of mobility has been appointed in order to accelerate processes of development and mobility between duties, bringing to the attention of all employees all open positions at the Bank, and allowing all employees engaged in different duties to offer themselves as candidates for managerial duties. In addition, the process of "a friend introduces a friend" has been expanded and also the "employer brand language" has been introduced to these worlds.

"FaceBank" Portal. FaceBank enables access to employees, participation in know-how, a wide dialogue and contents that assist in the integration of information in a convenient manner and advanced user experience. The portal emphasizes the participation of employees in determining the contents and in increasing their involvement in leading change processes.

Communication with the Leading Forum. Within the framework of the project regarding the organizational culture, strengthening and empowerment of senior managers with a view of improving ability for execution of decisions and projects and the optimal implementation of the strategic plan, a leading Forum was established. The Forum numbers some ninety managers directly subject to VP's, of the grades of Subdivision and department managers. The forum has a work plan of five levels with the duty to advance and handle cross-organization issues, strategic projects and organizational matters. The Forum meets a number of times per year in a workshop format. In between these meetings, CEO updates are held on a monthly basis, and also enrichment and development processes as well as current updates are provided through a designated WhatsApp group. In addition, work teams have been formed for the removal of bureaucratic obstructions and improvement of processes.

Meetings at various levels. In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:
- "Round tables" – "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices.

The customer experience at Discount Bank

The customer experience concept of Discount Bank places customer satisfaction of the Bank at the top of the importance scale.

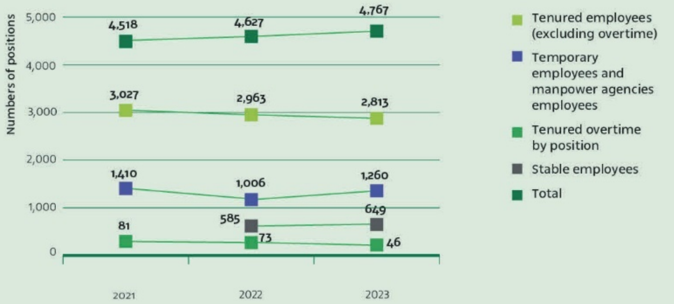
The Bank strives to position itself as the best bank for its customers and to lead the Israeli banking system in the recommendations index (NPS). In 2020, a multi-year strategic project was launched with the aim of implementing a series of changes that will lead to Discount Bank realizing its goal and to it becoming the best bank for its customers. The project is based on four main layers: (1) a comprehensive and varied array of tools for listening to customers; (2) an analysis of the feedback received from customers and converting this into action initiatives; (3) effective mechanisms for improving the customer experience and for handling problems that customers draw attention to, both in the field arrays – with the branches and with TeleBank, and also in the digital arrays and with the various head office units; (4) constant control and strict monitoring of the results. During 2021, the project's deployment began and this has brought about a significant improvement in the customer experience at the branches. In 2022, the deployment will continue and will be expanded to additional units of the Bank, and to additional contents. See also "Striving for a winning customer experience" in the section "Management's handling of current material issues" above.

Treating Complaints

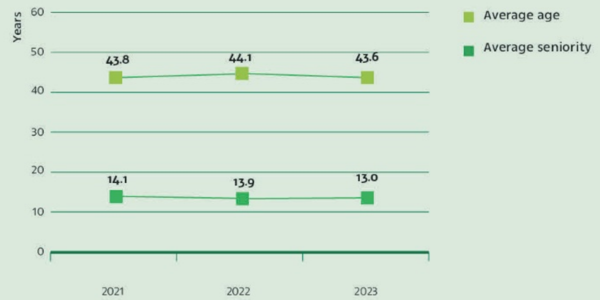
No data has yet been received from the Bank of Israel for 2023.

The annual report to the public regarding the treatment of complaints by the Bank in 2022, may be viewed on the Bank's website. The annual report for 2023, shall be available to the public on the Bank's website at the end of March 2024.

Number of positions at the Bank



Average seniority and average age at the Bank



The rate of university graduates according to grade at the Bank

Distribution of tenured employees by age at the Bank - work force 12/23

Distribution of tenured employees by seniority at the Bank - work force 12/23

Natural Retirement by Years at the Bank (tenured employees)

Material Agreements

Hereunder is presented a summary description of agreements, entered into outside the ordinary course of business, that might be considered material, to which the Bank is a party, or which according to its best knowledge, the Bank is a beneficiary in terms thereof, including agreements that were valid in the period covered by this annual report, or which affected the Bank's operations during such period.

Obligations of the Bank with respect to capital markets operations. In October 1983, within the framework of the "bank shares arrangement", the Bank informed the Minister of Finance and the Governor of the Bank of Israel that, among other things, it would not initiate, either directly or indirectly, orders for the purchase or sale of securities within the orders submitted to the Stock Exchange prior to the beginning of trading ("Leaders"), or as part of the setoff of purchase or sale orders prior to the beginning of trading. The Bank further confirmed that it would prevent, either directly or indirectly, any transaction in securities issued or which would be issued by banks or bank holding corporations, unless such transactions are on behalf of its customers, including provident and mutual funds. However, the Bank noted that nothing in the above would avoid transactions effected in the ordinary course of business.

Exemptions of indemnification to Directors or former Directors in the Bank or investee companies of the bank. The previous version of the Articles of Association of the Bank, which was amended in March 2002, included provisions regarding the indemnification of whoever acts or has acted, at the Bank's request, as director in another company, in which the Bank has an interest. Accordingly, the Bank had issued at that time letters of indemnification, unlimited in amount, to the acting directors or who have acted at the Bank's request in other companies owned by it. For additional details, see Note 26 C 8 A to the financial statements. For details regarding this matter and the matter of exemption in advance and indemnification of Directors and other Officers of the Bank and the subsidiaries, see Note 26 C 8 to the financial statements.

Agreements with FIBI as to the holding of means of control in ICC. In December 2006, the Bank and FIBI signed an agreement securing the understandings between them and regularizing the rights and obligations towards one another as shareholders of ICC. The said agreement amends a previous agreement dated September 29, 2000. For details regarding the letter of understanding between the shareholders of ICC, see above "Israel Credit Cards Company Ltd." under "Main Investee Companies".

Labor charter. The labor charter for Israel Discount Bank Ltd. employees was signed in 1974 and it incorporates employment terms, instructions regarding discipline, etc. For details see "Labor relations" under "Human Capital" above. Over the years, dozens of collective agreements have been signed, usually to supplement the contents of the Labor Charter. In an agreement dated December 23, 2021, the validity of the Charter was extended until December 31, 2026, subject to changes, the principal of which is the conversion of employees from a "temporary" status to a "stable" status.

Agreement for the construction of the Discount Campus. For details see above in "Fixed assets and installations".

A cooperation agreement with Shufersal Company for the establishment of a digital wallet for customers of all banks. For details, see Note 38 to the financial statements.

Rating the Liabilities of the Bank and some of its Subsidiaries

Rating determined for the Bank and some of its subsidiaries by different rating agencies

Rating given by	Subject of rating	Rating	Rating outlook	Date of rating/ ratification of rating
	Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Negative	February 1, 2024
	Issuer rating Short-term	il A-1+		February 1, 2024
	Subordinated debt notes with a loss absorption mechanism (Series F, G(2), H, I, J)	il AA-	Negative	February 1, 2024
	Bonds (Series M, N, O, P)	il AAA	Negative	February 1, 2024
	Commercial Securities (Series 3)	il A-1+		February 1, 2024
Midroog	Long-term deposits	Aaa.il	Stable	November 15, 2023
	Short-term deposits	P-1.il		November 15, 2023
	Subordinated debt notes with a loss absorption mechanism (Series F, G, H, I)	Aa3.il (hyb)	Stable	November 15, 2023
	Bonds (Series M, N, O)	Aaa.il	Stable	November 15, 2023
	Bonds (Series P)	Aaa.il		January 2, 2024
	Commercial Securities (Series 3)	P-1.il		January 2, 2024
The international rating agency S&P	Issuer rating Long-term	BBB+	Negative	January 31, 2024
The international rating agency Moody's	Long-term foreign currency deposits	A3	Negative	February 13, 2024
The international rating agency Fitch	Long-term issuer rating	A	Rating Watch Negative	January 2, 2024
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Negative	February 1, 2024(1)
	Issuer rating Short-term	A-1		February 1, 2024
	Bonds (Series D)	il AAA	Negative	February 1, 2024
	IDB Bank			
Kroll Bond Rating agency	Deposits	A-	Stable	January 26, 2024
The international rating agency S&P	Issuer rating Long-term	BBB+	Negative	October 31, 2023

Footnotes:

(1) Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.

(2) Date of rating: June 18, 2020.

The international rating data for the State of Israel (long-term for bonds issued in foreign currency)

Rating given by	Foreign currency - long-term*	Rating horizon*
The international rating agency Moody's	A2	Negative
The international rating agency S&P	AA-	Negative
The international rating agency Fitch	A+	Rating Watch Negative

* The data is taken from the website of the Accountant General at the Ministry of Finance.

Credit rating of the State of Israel – in view of the legal reform move. In the beginning of March the Fitch rating agency has ratified the credit rating of the State of Israel at a level of "A+", with a "Stable" rating outlook. Fitch noted, inter alia, that a number of countries that had undergone a significant institutional reform, have reached even a decline in their credit rating, and that at this stage it is unclear whether the proposed reform in Israel will have a similar extensive effect.

On April 14, 2023, Moody's rating agency published the credit rating of the State of Israel, leaving it at "A1". On the other hand, Moody's graded down the rating outlook from "Positive" to "Stable" due to its estimates that the events related to the implementation of the Legal Reform indicate the weakening of the institutional solidity of Israel.

On May 12, 2023, the S&P rating agency published the credit rating of the State of Israel leaving it unchanged at "AA-" with a "Stable" rating outlook, on the background of the assumption that an agreement would be reached regarding the legal reform.
On July 24, 2023, within the framework of the legal reform move, the Knesset passed the Reduction of the Reasonableness Cause Law. Moody's rating agency published on the next day a special report regarding Israel, following the passing of the Law. In this report, Moody's indicates the risks following the political and social tension in Israel and the impact on its economy that is becoming apparent.
On July 27, 2023, also the rating agency S&P published a special report following the passing of the said Law. S&P estimates that if the Government and the Opposition would not reach agreement, the political controversy in Israel will increase, burdening economic growth in the medium-range. In the short-range, the continuing political uncertainty combined with weaker economic performance as well as the tightening of the monetary policy would bring about a slowdown in the economic growth in Israel.
It should be noted that, against the background of the establishment of an emergency government, it is believed that the further progress of the reform will be put on hold until the end of the war, at least.
Credit rating of the State of Israel – in view of the "Iron Swords" War. On February 9, 2024, Moody's announced the lowering of the credit rating of the State of Israel from A1 to A2. On October 17, 2023, the Fitch rating agency announced that the rating of the State of Israel would be placed on "Rating watch negative" due to a change in the risks perception in the light of the war.
This decision is a continuation of a previous decision, dated October 19, 2023, which put the State of Israel on a surveillance for the lowering of the credit rating. Furthermore, Moody's has updated the rating outlook to "negative", which expresses the possibility of a further lowering in the future. On February 13, 2024, being a direct continuation of the lowering of the credit rating of the State of Israel, Moody's lowered the credit rating of the five large banking groups in Israel, among which is the rating of the Discount Group (from A2 to A3). On October 24, 2023, the S&P rating agency also announced that Israel's credit rating outlook would be reduced from "stable" to "negative" due to the significant worsening of the geopolitical and security risks that Israel faces as a result of the war.
For details regarding the direct effect on the Bank's capital adequacy, in the event that the credit rating of the State of Israel would be reduced, see "Capital and Capital Adequacy" above.

Activity of the Group according to Regulatory Segments of Operation - Additional Details

Points of Emphasis for 2024

As part of the changes that the banking sector is undergoing, the Discount Group will act to accelerate the evolution in banking activity, with the aim of improving its competitive ability and increasing its market share and profitability in the banking activity. The aforesaid acceleration will be done by focusing on five areas: a winning customer experience; significant growth and a larger market share in the focus segments; innovation; banking excellence; and, a winning organizational culture. For further details see "Goals and business strategy" above.

Household segment (Domestic operations) - additional details

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 173 branches located all over the country, service centers and diverse services on the direct channels. Value offers and financial services are being offered to customers belonging to the different service layouts according to financial wealth, their dynamic needs and their preferential ways of use, alongside other parameters, which include also focusing on the young persons

segment – "Discount believe in you more".
For details regarding "Support of Customers during the "Iron Swords" War period", see above.

Points of Emphasis in 2023

In 2023, heightened focus toward further assimilation of the customer experience continued in all the service layouts and at the head offices, together with further adjustment of the operating model to align it with the developing needs and priorities of customers and with market trends. The measures as a whole were implemented to support the realization of Discount's vision and strategy to be the best bank for its customers:

- Structuring a winning and cross channel customer experience – human and digital;
- The Bank continues to act towards creating an accessible array of wide services with an advanced experience, available 24/7 on digital platforms (including a digital mortgage, opening an account using the Application, and more), alongside tools and infrastructure for the support of customers adopting the advanced services;
- Expanding the service of arranging in advance a meeting with a Bank officer, teller services and consultants;
- Upgrading effectiveness and modification of the service by means of customer tailored value offers from the channel aspect;
- Development and use of advanced analytical models as a tool supporting customer-aligned initiative and decisions.

The integration of the strategy at the branches and at the regional offices will continue in 2024.

Service

General. In recent years, emphasis had been put on the upgrading of the multi-channel service experience, with the aim of offering a diverse, available, qualitative and accessible service, alongside continuing the integration of the communication management strategy based on life events, inflection points and true moments.
Among the services in the different channels may be mentioned:
Personal service TeleBank. A customer telephonic response center – automatic transfer to online banking of customer calls to the branch telephone exchange. The service enables improvement of telephone response time and clears time for branch employees to create added value for customers from the aspect of service, initiative and sales.
Activity on the Bank website and on the application – Receipt of information and the conduct of diverse banking operations, such as: depositing funds to a deposit, taking a loans and transfer of funds between accounts.
Correspondence with a banker by the application - allows the obtaining of information and effecting transactions with a preliminary response within one hour.

Consulting Layout

SMART INVEST. In 2022, a digital advisory system was launched - SMART INVEST, which allows an advised customer who joined the service to receive investment recommendations from the investment advisor on the Discount application.
Digital Consultation Center. A Digital consultation center was established in 2023 for customers having credit balances of less than NIS 300 thousand. The consultation services that are provided by the Digital center are by means of a digital manner only.
Investment Consultation Centers. The Bank operates five investment centers and six extensions country wide engaged in providing consultation services to customers having credit balances of over NIS 300 thousand and up to NIS 3 million. The consultation services at the centers combine telephonic or face-to-face consultation as well as digital consultation. Business hours at the consultation centers are in accordance with those of the Stock Exchange.
Pension advisory services. The Bank provides pension advisory services at the Bank's branches and private banking centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self-employed and salaried employees all over the country.
Portfolio management. Directing customers in need of services to authorized portfolio managers.

Securities center at the TeleBank. The center is designed for customers engaged in securities trading. Business hours at the center are: Sundays from 9:00 to 16:00, Mondays to Thursdays from 9:00 to 22:00, Fridays from 9:00 to 13:00.

Bank Branches

At the end of 2023, the Discount Group has 173 branches in operation in Israel (100 branches of the Bank and 73 branches of MDB). In 2023 an extension of the Nathaniya Branch was opened in Kfar Yonah and an extension of the Ashkelon Branch was opened in the Barnea Quarter in the city.

Direct Channels

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. For additional details, see "Technological improvements and innovation" hereunder.

Competition

Competitors. The Bank's principal competitors are the four other major banks in Israel - Bank Hapoalim, Bank Leumi, the First International Bank ("FIBI") and Mizrahi-Tefahot Bank. The level of competition in the banking system continued to rise in recent years, as a result of the removal of obstructions, of knowledge and mobility in the system and the adoption of advanced technologies, alongside the development of competition on the part of off-banking financial entities in accordance with their authority, according to the definition of special profits or losses regarding the compensation policy applying to Officers of the Bank, to define capital profit on the sale of properties as a special profit to be eliminated in computing the awards. Such elimination has had no effect upon the scope of the awards granted to the Vice Presidents, e.g. credit card companies, have entered the competitive market with respect to consumer credit, investment and insurance companies - inter alia with respect to capital market transactions, etc.
Means of handling the competition. Handling the competition is conducted while making an effort to differentiate the Bank from its competitors on several levels:
- Constructing a winning customer experience that stands apart from its competitors;
- Growth in the retail market share through the attraction of new customers, by means of the branch layout and the opening of an account using the Application;
- Making the most of customer potential by strengthening the bond and intensifying activity by way of improvement in service from the aspects of availability and providing complete response, alongside strengthening familiarity of needs, customized initiative and differentiated value offers;
- As part of the overall proposal of value adapted to customer needs, the Bank operates service systems specializing in investment consulting, pension consulting, credit and mortgage service.

Household Segment at MDB

The household segment is one of MDB's main segments and, accordingly, constitutes a central goal in its business development. Some of the customers belonging to this activity segment reside in settlements where the vast majority of the population are non-Jewish and where other banking corporations also operate. MDB competes for this population segment by providing a personal and devoted service by means of employees who are involved in the customs and culture of the customers belonging to this population segment and provide them with a service that meets their special needs.

Mortgage Activity

The Bank views mortgage activity as a strategic activity and as a tool for retaining existing customers and for attracting new customers. Mortgage loan services were provided in 2023 at 72 branches and one extention.
In 2023 the Bank operated two channels in the process of approving a mortgage, as follows:
- The mortgage consultants' channel at branches;
- A call center channel specializing in mortgage loans, which provides service in main areas, as follows:
  - Dealing with applications from customers interested in a new loan and enabling a conditional approval in principle to be granted (on the basis of set criteria), with the process being continued at a personal meeting with the customer at the branch;
  - Approaches by customers who do not match the criteria are dismissed, or alternatively, the customer is invited to discuss his request at the branch;
  - Response to existing customer questions regarding ongoing loans.

Moreover, the approval and underwriting powers at the TeleBank center has been expanded. In 2022, activity at the center expanded to the extent that 40% of all new mortgages were started at the center (digitally or by telephone) and the approval and underwriting powers at the TeleBank center were also expanded.

Developments in the mortgage market

	December 31,		
	2023	2022	
	in NIS millions		Change in %
Total housing loans granted by the banks, excluding internal recycling of loans	71,101	117,626	(39.6)
Loans from State funds	323	398	(18.8)

New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the year ended December 31,		
	2023	2022	
	In NIS millions		Change in %
From bank funds[(1)]	9,697	17,765	(45.4)
From Treasury funds[(2)]	45	48	(6.3)
Total of new loans	9,742	17,813	(45.3)
Recycled loans	6,755	1,534	340.4
Total granted[(3)]	**16,497**	**19,347**	**(14.7)**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 534 million in 2023, compared to NIS 270 million in 2022.
(2) Including standing loans in the amount of NIS 16 million in 2023, compared to NIS 19 in 2022.
(3) At the Bank and M.D.B.

Legislative restrictions and regulations

Proper Conduct of Banking Business Directive No. 251, "Adjustments in Order to Deal with the Iron Swords War (Provisional Instruction)". On October 31, 2023, the Banking Supervision Department published the directive, which extends a number of dates set in the Proper Conduct of Banking Business Directive No. 451, "Procedures for Granting Housing Loans", including the dates on which the Bank must provide customers with a letter of intent, approval for removal and approval for the placing of a second ranking pledge on a property. It was also determined that Proper Conduct of Banking Business Directive No. 449, "Simplification of Customer Agreements", will not apply at the time of a customer's request to defer mortgage loan repayments in accordance with the outline of assistance to customers in dealing with the consequences of the Iron Swords War published by the Bank of Israel, in order not to delay implementation of the outline. It was prescribed that the customer's signature would not be required in order for him to make the request for a repayments deferral, if said deferral is in accordance with the assistance outline, provided that the customer's consent is received and documented. In addition, the date has been extended for the implementation of an amendment to Proper Conduct of Banking Business Directive No. 451 dealing with an online inter-bank interface for the housing loan rollover process. On November 21, 2023, an update to the aforementioned

Provisional Instruction was published, within the framework of which additional reliefs were granted, and inter alia, the date for granting approval in principle was also extended, and it was prescribed that a borrower would not be required to sign the documents for a housing loan with two or more borrowers, when one of the borrowers has difficulty signing. An amendment of the said Provisional Instruction was published on December 31, 2023, in which an exemption was granted in respect of the limitations stated in Proper Conduct of Banking Business Directive No. 329, pertaining to restrictions on the ratio of repayment to income, restrictions on the part of the loan carrying variable interest and restrictions on the period of repayment, with respect to loans of up to NIS 200,000 for the purpose of constructing bomb shelters, which is exempted from a building permit under the Planning and Construction Regulations (Work and Buildings exempted from a permit), (Provisional Instruction – Iron Swords), 5784-2023. Furthermore, the Amendment states that a banking corporation is permitted to approve a housing loan not intended for the purchase of rights in real estate (an all purpose loan) up to a financing rate of 70%, provided that the amount of the loan exceeding a financing rate of 50% shall not exceed NIS 200,000. For additional details see "Legislation and Supervision".

Amendment of Proper Conduct of Banking Business Directive No. 451 in the matter of housing loans. An amendment of Proper Conduct of Banking Business Directive No. 451 was published on July 19, 2023, whereby guidelines were included intended to facilitate early repayment of a housing loan, including by way of refinancing an existing loan by means of a banking corporation or another financial institution. The Amendment states that certain actions pertaining to a premature repayment notice as well as receiving documents required for the refinancing of an existing loan by means of another banking corporation may be effected distantly with no need for the customer to visit the Bank branch.

The Economic Program Law (Legislation amendments for the implementation of the economic policy for the 2023-2024 budget years), 5783-2023. On June 6, 2023, the Arrangements Law was published on the Official Gazette, which, inter alia, established that a banking corporation has to deliver to the customer a monthly statement of the amounts of interest and commissions charged for the preceding month in respect of a mortgage loan. The effective date is set for June 2, 2024. For additional details, see below "Legislation and Supervision".

The Insurance Contract Law (Amendment – the transfer between banking corporations of a life assurance beneficiary), 5783-2022. On July 11, 2023 the Amendment was approved, the aim of which is to facilitate mortgage bearers in refinancing of a mortgage loan by means of another institutional body, without the borrower having to purchase a new life assurance policy in respect of the refinancing. According to the approved Amendment, the borrower may require the assurance company to change the beneficiary stated in the policy, from the first financing institution to the new financing institution within the framework of that same life assurance contract, in a refinancing of a mortgage transaction. Thus, would be abolished the barrier existing at the present time upon the refinancing of mortgages, whereby, due to the advancing age of the borrower or to changes in his medical condition the cost of the assurance premium increases, and even in certain cases, the purchase of a new assurance policy is not possible.

Developments in the mortgage market

In 2023, new mortgages (the Bank standalone) amounted to approx. NIS 8.08 billion, a 55% decrease compared to the volume of mortgages in 2022 (that amounted to NIS 14.7 billion). Nevertheless, a distinction should be drawn between the first half of 2023 and the second half of that year. The first half was characterized by a slowdown in demand in the mortgages market at a level similar to that seen in the second half of 2022. The second half of the year was characterized by a significant slowdown (mostly due to the outbreak of the "Iron Swords" War).

The volume of Discount Bank's housing loans portfolio increased at a higher rate that the housing loans portfolio of the whole Israeli banking system. An increase of 4.9% in 2023 compared to 4.7% for the whole system. Nevertheless, the market share dropped from 12.4% to 10.1%.

Sectors of operation

Loans financing the purchase, renovation or construction of residential units. Loans financing the purchase of residential units, the renovation or construction thereof, taken by individuals. These loans constitute most of the activity in the mortgage loan field. These loans are financed by the Bank's funds. In addition, the Bank is engaged in the granting of loan and loan collection services, in an immaterial volume, as part of the assistance programs of the Ministry of Construction and Housing.
Multipurpose loans secured by a mortgage on an apartment unit. Loans collateralized by a mortgage on a residential unit, granted to individuals for various purposes (other than business purposes).
Acquisition groups. The Bank grants credit to groups of individuals joined together for the purpose of a joint building project by means of an acquisition group. Evaluation of the risk involved in the project and the management of the credit line, if approved, are performed by the project finance unit of the Corporate Division. Small-scale projects are performed by the Mortgages Section of the Banking Division. Approval of the individual mortgage files is conducted in designated branches. Since 2019, the Bank has resumed extending credit to purchase groups, after having discontinued activity in this sector from 2012.
Supporting activity – Mortgage related insurance. As an additional security for credit, the bank requires its customers to purchase property insurance and life assurance.
The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank's and MDB's telephone services, respectively.

Business strategy

The granting of mortgage loans is made under an overall view of the customer. The Bank focuses its mortgage operation on existing customers, as a preserving and maintaining product. In addition, an activity for attracting new customers is conducted through the granting of mortgage loans.
Policy regarding mortgage operations. The Bank's policy with respect to mortgage operations defines the required criteria for securing the quality of credit and reducing risks involved therein, including criteria for the screening and rating of borrowers and credit applications, examination of the repayment ability of borrowers and guarantors for the debt, the type of collateral securing the loan, safety factors, the manner of credit pricing, as well as principles for performing the monitoring and control over credit and collateral. The policy determined various limitations on mortgage operations, both at the individual borrower level and the combined credit operations level.
The Bank operates a rating model, used in the approval of the transaction and its pricing.

Additional details regarding the mortgage portfolio of the Discount Group and the risks inherent therein

For additional details regarding the mortgage loan portfolio of the Discount Group and the risk inherent therein, see Chapter C – "Risks Review" in the Board of Directors and Management Report.

Competition

This sector is characterized by high competition, which is distinctly price inclined. Among other things, the competition is affected by the bank's view of the mortgage product as a base product for the preservation of existing customers and as a tool for attracting new customers.
The Bank copes with the said competition by improving service, focusing on reducing the time required for the granting of loans and making processes more efficient including the broadening of the digital interface activity. The Bank is upgrading its systems by means of computerizing of processes, with a view of improving the reaction time to customers' new mortgage loan applications, while conducting a controlled management of the risks. This, in order to improve the service to its customers, in view of the competition in the mortgage field existing between banks.

Private Banking Segment (Domestic operations) - Additional Details

General

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.
Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US$1 million, in the case of foreign residents (hereinafter: "private banking customers").
Customers of the local private banking in Israel, manage their accounts at the Bank's branches, and obtain service at four private banking centers at their disposal: in Herzliyah, in Tel Aviv, in Jerusalem and in Haifa. Private banking customers who are foreign resident obtain service at the international private banking center in Tel Aviv.
Customers active on the capital market in amounts of between NIS 1 million and NIS 4 million receive expert consulting services only, at the investment banking units that report to the private banking centers (4 units and 7 extensions spread throughout Israel).

Developments in the Segment

In 2023, the Bank continued its efforts to intensify the activity with private banking customers.
During the year, the new combined investments and private banking Subdivision started the structuring of the plan for a change in the organizational structure and its modification to the needs of the Bank and its customers. Implementation of the plan is designed for 2024.
The Israeli private banking segment focused on providing ongoing service, by means of four service centers and 6 extensions in Herzliyah, Haifa, Jerusalem, Tel Aviv, Rishon LeZion and in Ashdod, as well as on intensifying the activity with existing customers and further work in aligning customers at branches and private banking centers with the service arrangements appropriate to their needs, according to their profiles.
As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. According to the service concept, the Bank has conducted during the year focused online meetings with central customers with respect to different economic and current matters.
Activity in the international banking operations was focused on intensifying the operations with existing customers, while continuing the meticulous implementation of foreign residents policy adopted by the Bank, and the implementation of the directives of the Supervisor of banks regarding the obtaining signatures of foreign residents and the management of cross-border risks. In addition, as part of risk management, measures are taken to concentrate the foreign resident customers holding passive balances of US$1 million and over, in the international private banking center.
For details regarding foreign resident customer acceptance policy and the implementation of the Supervisor's instruction regarding obtaining the signatures of foreign residents, see "Exposure to cross-border risks for the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information on risks".

Strategic Emphasis

According to emphasized strategic items at the basis of the Bank's work plans, private banking operates in two segments: the international banking segment, serving foreign resident private banking customers and new immigrants, and the investments and private banking segment, serving Israeli resident private customers.

The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to foreign residents and new immigrant customers with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.
The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by investment consultants responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.
The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.
The private banking layouts will continue to focus on expanding the customer base and in intensifying activities with them, while placing an emphasis on cultivating hi-tech customers and the following generation with a fundamental risk management in the process of attracting new customers and handling of the existing ones.
As an integral part of the private banking business plan, emphasis is placed on the ongoing review and upgrading of the risk management processes. For several years, the Bank adopts and implements a strict, risk based policy, regarding all private banking customers, including foreign residents and new immigrants which relates to the tax payment on the funds deposited in their accounts. In addition, the risk management unit at the Banking Division will continue to intensify its operations in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan.

Service to Customers

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them. Segment customers with passive investments exceeding NIS 4 million, enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants, VIP mortgage consultants, as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.
Customers with passive investments of between NIS 1 million and NIS 4 million receive investment and pension advisory services at the private banking – investment banking centers, while banking services are provided at the branch.
The private banking provides service to customers six days per week and the private banking centers in Herzliyah, Tel Aviv and Jerusalem operate from 8 AM to 7 PM (on Fridays from 8 AM to 1 PM), in order to provide service at hours convenient to customers.
The staff of international banking have a command of foreign languages, according to the language of the customer they serve.
In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank's subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment's customers.
Customer relations unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.
A product initiation unit acts to create unique products suitable for this segment of customers.
The advisory services Sector acts to create an infrastructure of research and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

Development in the Segment's Markets and Competition

Foreign banks continued, also in this year, their marketing efforts to Israeli customers in the investments and credit fields, considered customers of high financial wealth. The year 2023 started with the judicial reform, causing private banking customers and customers having financial wealth to divert funds to foreign banks. The "Iron Swords" War

started in the last quarter of the year, causing decline in activity due to the War. The market in Israel was marked by moderate price increases, while foreign markets were marked by steep increases. The interest environment continued at a high level during the year and the world of deposits continued to be dominant in investors preferences. Diversion of current account balances in favor of deposits and monetary funds also continued.
Competition in the private banking segment, with respect to prices and commissions and to the level of service to customers, increased, mostly due to the competition against investment houses offering credit and reduced commissions on the capital market and with the Israeli banks in the interest arena.

Discount invest

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – ”Discount invest”. This service offers the Bank’s customers a wide and varied array of advanced technology and services layouts for capital market operations.
”Discount invest” offers innovative technological applications, the most noticeable of which is ”Discount trade” – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of ”Discount trade” enjoy a level of service and unique availability of the Bank’s dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.
The service also includes foreign securities operations on the U.S. Stock Exchanges.
Within the framework of ”Discount invest”, the Bank positions a high bar for service, adapted to the type of activity of the customer, with maximum availability. During the year, the Bank moved the providing of consultation services to the consultation centers located countrywide. Consultation is provided by licensed investment consultants, offering personal service during the center’s business hours – 08:00 to 17:30. Advisory services may be further obtained from the central telephonic investment support office until 22:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors, including foreign securities. An option for obtaining digital consultation exists with respect to amounts below NIS 200 thousand. Digital consultation services are provided also by combination with investment consultation for amounts of over NIS 200 thousand.
Customers having investments in amounts of between NIS 1 million and NIS 4 million, obtain services from four private banking centers, the investment banking segment and seven extensions countrywide, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.
Customers of the investment banking centers enjoy varied service lanes at attractive prices.
Customers having financial wealth enjoy a layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.
For details regarding innovative digital services, see below in the “technological and innovative improvements” section.

Small and Minute Businesses Segment (Domestic Operations) - Additional Details

General

The Discount Group offers diverse services and financial products to customers of the small business segment, both at Discount Bank and at MDB. These are provided by means of a chain of some 176 branches located all over the country, in addition to a variety of direct channels.
For details regarding "Support of Customers during the "Iron Swords" War period", see above.

Business Strategy, Goals and Points of Emphasis

The Bank applies strategic emphasis to the small businesses field, performing within this framework different moves regarding this segment that would enable assistance of the operation of the business will provide a proper response to the business' financial needs and will contribute to its growth.
The array for dealing with the small businesses segment is characterized by the granting of a comprehensive and professional banking service for business development, which includes focusing on all possible banking operations alongside the development of areas of relevant banking services, and which also includes integration of innovations and the introduction of tools, products and contact channels to provide a value offer that is as broad and distinctive as possible.
The Bank is implementing an operating model for small businesses, in which the emphasis is on offering of a modified and unique to the Bank's business customers, and attracting new qualitative business customers. In order to secure customized service, the service teams and credit coordinators at the branches have been grouped in a format forming the infrastructure for providing solutions that fit the business profile.

Business Strategy, Goals and Points of Emphasis for 2024

The focusing by the small and minute businesses segment continued with an emphasis on increasing the activity with existing customers, attracting new business customers and the basing of growth upon improving the models for the rating of business customers as a supporting tool for the granting of credit.
Goals have been set for controlled growth in the small and minute businesses segment, with focus and emphasis on existing and new quality customers, having a reasonable level of risk and having risk-adjusted profitability suitable for the Bank. Among other things, the following goals were set:
- Intensifying activity in the Small Business Segment - an increase in the number of customers, while focusing on reducing the number of customers wishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit;
- Sale of products fitting to the segment's customers and addressing selected customer categories within the segment;
- Continuous focusing on improvement of the customer service level by improvement of staff proficiency, improving availability, measurement and control;
- Continuation of improving a rating model for business customers and the use thereof as a tool deciding or supporting a decision for the granting of credit;
- Upgrading of models for immediate granting of credit on the digital channels, while enlarging the sources for data;
- Expansion of the use of direct channels, with a focus on upgrading the designated website for customers of this segment – "Business +" and a designated application for business customers;
- Integration of the change within the branch network and the movement and concentration of business customers to appointed designated branches, thus maximizing the professional service granted to segment's customers;

- Implementation of an operating concept for small businesses while upgrading segmentation for the integration of attractive value offers for this segment;
- Support for this segment during the "Iron Swords" War, by way of compatible products based on the monetary fund, the granting of credit through the State guaranteed fund, and the granting of relief regarding credit facilities, interest free loans for business owners on active service and deferrals.

Competition

The existing competition in this segment is mainly in the banking sector. Nevertheless, the trend of granting finance to small business customers is increasing, which is provided by credit card companies, as well as through designated, private, off-banking companies that finance specific activity, such as: the purchase of vehicles, equipment, imports activity, and the provision of lines of credit for working capital purposes, the discounting of checks and factoring, and also by fintech entities. The principal steps that the Bank takes to cope with the competition, include timely response to customers' requests, development of personal relationships with customers and proposal of viable comprehensive professional solutions for financial requirements.

Service to Segment Customers

The small business segment provides the full variety of services to the segments' customers. The service is provided at the Bank's branches, including foreign trade services through a head office support unit. Also available to business customers is the possibility of receiving service via an Internet website and a designated application and over the telephone.
Customers transacting international trade business are being serviced by the foreign trade department according to their particular economic sector (see below under "Corporate Banking Segment").
Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to approx. NIS 15 million and indebtedness of up to approx. NIS 4-5 million, obtain services from the business banking teams at the Bank branches and with the backup and support of professional parties and content experts from the regional managements. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.
Business dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions. The Bank conducts a focused activity for connecting business customers, both small and medium, to the commercial dealing room.
Business credit card. The Bank offers a "business key" credit card to its customers. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.
"Business +" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.
SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.
Application for business customers. A designated Application for use by business customers, offering them a wide range of services and transactions regarding their current work.

The Small and Minute Business Segment at MDB

This segment is one of MDB's most notable segments and, accordingly, constitutes a central goal in its business development. Some of the customers belonging to this activity segment reside in settlements where the vast majority of the population are "non-Jewish". In order to overcome the competition existing in providing banking services to this population, MDB invests resources in advertising, creating personal contacts with the customers, providing a personal service, and finding financial solutions to the array of its customers' business needs. It does this by providing banking services by means of employees who are involved in the customs and culture of the customers belonging to this population segment and provide them with a service that meets their special needs.

Medium businesses Segment (Domestic operations) - Additional Details

Service to Segment Customers

Customers of the group's Medium businesses segment are medium size business customers (middle market). These customers enjoy personal, professional and quality service relating to all their financial needs (one stop shop). The service includes the modification of the varied banking products to their different needs as regards credit and guarantees, currency hedge, international trade, financial instrument activity, credit card clearing settlement, specialized investments in the capital market, factoring and more. Besides these services, the Bank offers solutions for the financial needs of company owners, their executives and staff, who enjoy terms granting them the status of preferred customers.

Service to Bank customers is provided by five business centers that operate nationwide: Jerusalem, Tel Aviv, the Sharon Region, Haifa and the Lowlands.

The service provided by the business centers is integrative, provided by teams which include a business center manager, customer relations managers and credit experts, with the assistance of an operational team. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the principal operational center.

The hi-tech Section in the Corporate Division ("Discount Tech") is the banking arm of the Discount Group for hi-tech companies. This Section handles startup companies and hi-tech companies from the seed stage to the hyper growth stage. Discount Tech offers credit lines and venture lending as from the primary revenues stage, subject to compliance with the relevant underwriting terms. Most of the companies that are customers of this Section comprise companies of the medium business segment; however, the Section serves also companies from the small and minute businesses segment and up to unicorns and fast growth companies, being members of the large business segment.

Furthermore, service to customers of the diamond sector is provided by the Diamond Exchange Branch, which specialty is the management of accounts of diamond traders, while specializing in all services unique for this sector.

The foreign trade department serves customers engaged in international trade. The Internet website "Business +" stands at the disposal of the segment's customers. (For further information, see above, "Corporate Banking Segment").

Business dealing room designed for providing operating services to middle-market and small business segments customers and provides purchase and conversion of foreign currency services and performing hedge transactions.

In addition to the middle-market activity at the Bank, included in this segment is also the middle-market activities of MDB.

For details regarding "Support of Customers during the "Iron Swords" War period", see above.

Goals and Points of Emphasis for 2024

- Growth targets have been set for the medium business segment while focusing and placing an emphasis on existing and new, quality customers having a reasonable risk level and satisfactory risk-adjusted profitability for the Bank;

- The teams at the business centers offer customers of this segment many financial options, are active in devising customized solutions to customers and comprise a professional service address to all financial needs of the customer;
- Expanding the activity with customers operating in economic sectors that are preferred for growth according to the Bank's credit policy, while reducing activity with economic sectors having a high risk level;
- Continuation of professional qualification amplifying the control and monitoring processes by way of improving the quality of analyzing the monitoring results of customer condition.

Developments in the Segment's Markets

The raising of the interest rate in the economy during 2023 materially affected the financing expenses of the companies and respectively, may lead to erosion of the profitability of the companies. The rise in interest rate is concurrently affecting households and reducing their free income, which may reduce consumption and/or direct it towards more basic consumption products. Such data has an impact on the companies operating in this segment and on their profit margins.
The "Iron Swords" War has affected the overall activity of the economy and respectively also the companies operating in the medium business segment, and this is reflected in applications for credit assistance by means of the fund guaranteed by the State. The Bank conducts a follow-up and monitoring of the said impact and on performance of the companies.

Anticipated Developments in the Segment's Markets

The Bank of Israel kept the interest rate unchanged during the second half of 2023, after raising it during the first half of the year from 3.25% to 4.75%. At the beginning of 2024, the Bank of Israel lowered the interest rate by 0.25% to 4.5%. The scope and raising pace of future interest in Israel and abroad are expected to have a significant impact on economic growth characteristics in the coming year.
Developments in the segment's markets in the high-tech sector and in the commerce sector – for details, see "Large Businesses Segment" in the "Developments in the Segment's Markets" section.

Competition

High competition exists among the banks operating in Israel in the granting of credit to this segment. Furthermore, competition exists also with off-banking financial institutions. The main competition is in the interest rates and commission offered to customers as well as in the collateral required and in the related terms such as the rate of financing.

Large businesses Segment (Domestic Operations) - Additional Details

General

The business segment specializes in comprehensive financial services ("one stop shop") to large corporations, including an in-depth review of the needs of the corporation and in providing customized creative financial solutions. For details regarding "Support of Customers during the "Iron Swords" War period", see above.

Business Strategy, Goals and Points of Emphasis

In 2023 the Bank continued to act in the ordinance with the work plan for the corporate banking segment, while focusing on customer focused view and on qualitative growth in areas of focus. Among other things, the Bank

continued to act towards modifying the credit spreads to risk levels, and to the reduction in exposure to high risk level operations, as part of management of the credit portfolio.
In addition, the Bank strictly monitors large customers and the large borrower groups. For further details, see "Credit risks" in the chapter "Risks Review".
In 2024, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, while shifting risk assets to usages earning a high return.
Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2024:
- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio while concentrating the effort on focused sectors;
- Leading syndication transactions in conjunction with institutional bodies;
- Widening the array of services to customers while increasing the risk adjusted return;
- Increasing the income derived from a risk asset while setting a risk adjusted price as well as an increase in activity related to the various products by means of proactivity and customized financial solutions;
- A decline in the existing risk profile by means of defining the credit appetite levels to the various economic sectors and striving for reduction in exposure in risk areas;
- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (targeted populations, products, geography);
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror.

The above said is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy, as discussed above in this Section and in "Main developments in Israel and around the world in 2023". The foregoing may not materialize in case of a significant decrease in demand from overseas due to a noticeable decrease in the recovery and growth rates in certain overseas markets, a significant decrease in local demand due to an additional deterioration of the security-political situation, a decrease in available financing resources on overseas and domestic financial markets, significant volatility in interest rates and exchange rates around the world and in the global economy, and other changes in macro-economic conditions, which are not under the Bank's control.

Service to Segment Customers

Financial support to large corporations is provided by business managers and product experts of the corporate layout of the Corporate Division.
The teams are composed of a business manager, customer relation managers and credit experts, comprising an address to all the financial needs of the business customer, including the customizing of creative financial solutions and advanced banking products to the needs of the customer, in areas of credit, deposits, currency hedge, international trade, factoring, credit card clearing, specialized investments in the capital market, and more.
The teams are divided according to specialization in the different economic sectors: industry, tourism, investment funds and financing, commerce, transportation, public institutions, financial corporations, different types of off-banking finance, communication companies, financing of complex foreign trade and financing of debtors (foreign and domestic) and more.
The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities. In addition, the "Business+" Application is available to business customers, a designated Application providing a wide variety of services and operations.
Discount Capital offers the customers of the corporate segment assistance in the process of public offerings and private placements, including underwriting services and securities distribution, as well as services regarding investment banking. Some of the segment's customers utilize the services of the Bank's trading desk (see below, "Finance management segment") and the Bank's overseas offices (see below, "International operations segment").

Products and Services

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, and the comprehensive handling of institutional bodies, providing finance for large transactions by way of organizing syndication, in which institutional bodies as well as Israeli and foreign banks participate, and granting credit to Israeli corporations operating abroad.
In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution and so forth.
Foreign trade activity at the Bank is performed at the Foreign Trade Unit of the Operations and Properties Division and at the Complex Foreign Trade Financing Unit of the Corporate Division. The two units provide varied services to customers of the different business sectors that engage in international trade. The business activity of the foreign trade unit includes all the services in the foreign trade field that the customer requires (import, export, finance, conducting factoring of foreign guarantees, etc.). In addition to conducting the activity, intensive activity continues in the preservation and development of relations with existing customers as well as in attracting new customers, while initiating business meetings and the visiting of customers together with the business unit managers of the Bank's various divisions.

Substitutes for Products and Services of the Segment and Changes therein

As a substitute for bank credit to customers of the business segment, alternative financing products offered by off-banking financial institutions in general and institutional entities in particular have been developed. These bank credit substitutes include the raising of finance by way of the issue of shares, bonds and other securities on the capital markets in Israel and abroad, including direct credit offered by such entities. In situations of expanding business activity and improvement in business performance of companies operating in the local and foreign markets, the availability of off-banking financing sources has increased with respect to certain of the large and financially stable customers.
Wherever the possibility to raise funds on the capital market exists, off-banking finance serves as an alternative financing resource, primarily for the long and medium term credit products, thus contributing to the reduction in the volume of this kind of credit in the credit portfolio reflecting the activity of this segment.

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

The principal restrictions applicable to this segment are briefly described hereunder.
Proper Conduct of Banking Business Directive No. 313. According to the directive, the indebtedness limit for a single borrower (that is not a bank) stands at 15% of the bank's capital, the indebtedness limit for a group of borrowers stands at 25% of the bank's capital and the indebtedness limit for a group of banking borrowers or a group of credit card borrowers stands at 15% of the bank's capital. The total indebtedness of borrowers, groups of borrowers, groups of banking borrowers and groups of credit card borrowers, whose net indebtedness to the banking corporation exceeds 10% of the bank's capital, is not to exceed 120% of the bank's capital.
The definition of capital for the purpose of computing the limitation was restricted to the Tier 1 capital only (net of supervisory adjustments and deductions) within the meaning of Proper Conduct of Banking Business Directive No. 202. As of December 31, 2023, no deviations existed to the limitations as set in the directive.
The Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. According to a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.
The Supervisor of Banks published on October 27, 2019, an amendment to the Directive, which adds restrictions relating to indebtedness of a borrower/groups of borrowers engaged in speculative activity. The Amendment takes effect on July 1, 2020.

A circular was issued on April 7, 2022, updating Proper Conduct of Banking Business Directive No. 313, within the framework of which, it had been determined that the calculations relating to derivative financial instruments shall be made in accordance with Directive No. 203A instead of Appendix "C" in Directive No. 203. In addition, it had been determined that deductions from the indebtedness, which were not included in the amount of exposure to derivative financial instruments, would be allowed.

On November 17, 2022, the Banking Supervision Department approached the banking corporations as part of a quantitative impact survey regarding major exposures, aimed at estimating the likely effect of updating Proper Conduct of Banking Business Directive No. 313, "Limitations on the indebtedness of a borrower and a group of borrowers". Following analyzing the results of the survey, a draft directive will be formulated that will be brought to the advisory committee for discussion. A draft amendment to the directive, which serves as the basis for conducting the survey, was published on November 17, 2022. The update to the directive deals, at a group level, with the risk of potential harm to the repayment ability in the event of default by an individual counterparty or by a group of related counterparties.

The limitation on "related persons". Proper Conduct of Banking Business Directive No. 312 imposes a restriction on the granting of credit to all "persons related to the bank", as defined in the Directive, so that it would not exceed 10% of the bank's equity. As of December 31, 2023, there were no deviations from the said limitations. A number of changes to the said Directive took effect on January 31, 2022, inter alia, in order to facilitate the implementation thereof by banking corporation, though with no change in the central principles standing at its base.

Credit risk insurance policies

The Bank purchases policies to insure credit risks on Sales Law guarantees, performance guarantees and loans to finance land purchases. Within the framework of the polices, the Bank transfers part of the credit risk to an international consortium of reinsurers. According to Proper Conduct of Banking Business Directive No. 203, the international rating of the reinsurers allows the Bank to perform a replacement of counterparty risk, thereby reducing the capital allocation for the insured assets by up to 80%.

Developments in the Debt of the Business Sector

The debt of the business sector (excluding banks and insurance companies) amounted at the end of November 2023[15] to NIS 1,310 billion, an increase of approx. 9% compared with the end of December 2022 (all the rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI).

The growth in total debt is in the larger part derived from the increase in the debts to banks (8.6%). In addition, an increase was recorded in the debt to institutional bodies (approx. 6%), due to an increase in the balance of bonds held by institutional bodies (approx. 9%) and a moderate increase in the loan component (approx. 2%). On the other hand, a decrease of approx. 2% was recorded in the indebtedness of the business sector to foreign residents (as stated, a nominal decrease reflecting, in fact, a sharper real-term decrease, in view of the devaluation during the period), and an increase of approx. 1.5% was recorded in the indebtedness to households. The said trends have led to an increase in the weight of banks in the total indebtedness of the business sector from 53.4% to 54.9%.

During 2023 the business sector, excluding banks and insurance companies, raised bonds in an amount of approx. NIS 48.5 billion (on the Tel-Aviv Stock Exchange and by means of non-listed bonds), a scope similar to that in 2022.

The margin between corporate bonds, included in the Tel-Bond 60 Index, and government bonds as of the end of December 2023 was 1.41%, compared with 1.53% at the end of September 2023.

The margin between corporate bonds (included in the shekel Tel-Bond) and government bonds as of the end of December 2023, was 1.78%, as compared to 1.87% at the end of September 2023. The reduction in margins during the fourth quarter of the year occurred concurrently with the decline in yields on government bonds.

15 The most updated data available at the time of submitting the report to print.

Developments in Segment Markets

Prior to the outbreak of the "Iron Swords" War, the economy had already confronted the rise in geo-political risks, alongside the rise in inflation and in the interest environment. The "Iron Swords" War, which broke out on October 7, 2023, led to a crosswise increase in risk of the Israeli economy.
Economic activity was sharply adversely affected during the fourth quarter of the year, in particular at its beginning, following the shutdown of the education system. At the beginning of 2024, the economy returned gradually to activity.
The heavy defense expenditure caused by the War, alongside the cognizance that the defense budget will have to grow significantly on a permanent basis, are expected to burden the Israeli economy in the coming years. All these contribute to the growth in uncertainty and strengthen apprehension regarding a challenging economic environment and an increase in scope of credit default events.
Following are development directions in the principal economic sectors:
- The hosting of evacuees, residents of southern and northern areas, in hotels, which is financed by the State, is expected to reduce gradually during the year. Internal tourism is expected to indemnify to a certain extent for the weakness in incoming tourism, which is expected to last also after the War;
- The high-tech sector is coping with a substantial downturn in the scope of capital raisings. This has led, inter alia, to a reduction in manpower and to a reduction in the scope of employee recruitment;
- Commercial sector – The sector's performance aligns with consumer purchasing power, which is derived – inter alia – from the unemployment rate;
- Defense industries - high demand for products of the defense industries by domestic and foreign customers;
- Real estate sector - for details, see below ""Construction and real estate activity".

Anticipated Developments in the Segment's Markets

In its last interest decision, at the beginning of 2024, the Bank of Israel raised the interest to 4.5%. The scope and raising pace of future interest in Israel and abroad are expected to have a significant impact on economic growth characteristics in the coming year.

Construction and Real Estate activity

Service to customers of the segment

The business activity in the construction and real estate segment is conducted through the Corporate Division's real estate Subdivision and commercial Subdivision. These Subdivisions specialize in providing a dedicated response to both large companies and also to medium level corporations engaged in entrepreneurship and investment in residential and income generating real estate in the local market.
In the corporate layout there is a unit that handles complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by the PPP method).
MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

Products and services

The services that are provided include financing real estate transactions in all the segments – land financing, accompanying the setting up of projects, "Vacate and Build" transactions, income generating properties, residential rental property and the Encouragement of Capital Investments Law, as well as credit for national infrastructure projects in the construction and operational stages.

Directions of business development in the markets activities

The Bank defined the following fields of activity in preferred areas for the allocation of credit facilities:
- Closed housing project financing, including small projects in central demand areas in central Israel and in peripheral areas, while maintaining a distribution of credit to borrowers in this field;
- The purchase of new lands available for building in preferred areas in the center of the country and in peripheral areas, where for which the Bank intends to finance housing projects in the form of closed project financing;
- Financing of significant "Vacate and Build" transactions, combination/exchange transactions and "Vacate and Build" (TAMA 38/2) programs;
- The Bank is active in the leading and financing of projects in the national infrastructure field, in cooperation with other banks and/or institutional bodies, that include identified and secured long-term repayment resources having a high certainty level.

Alternatives to products and services of the operations and changes therein

Off-banking financing constitutes an alternative financing source for long and medium-term credit used for the financing of investments and/or the purchase of income producing property, while in building projects, customers generally prefer the use of medium-short term bridging finance for the set up period and/or providing Sales Law guarantees.
In the infrastructure field, where the period of operation/yielding of the project is relatively long, the banking system has an advantage in financing the initiation and construction stage (short to medium term) in contrast to the need to combine institutional bodies in the long-term financing.

Structure of the competition prevailing in the operations and changes therein

Competition exists in this sector both on the part of banking corporations and on the part of institutional and/or off-banking bodies, which in recent years have established units engaged in the granting of credit for the finance of long-term nonmarketable properties. Some of the institutional and/or off-banking bodies have even expanded their activity in providing Sales Law guarantees to purchasers of residential properties as well as performance guarantees.

Coping with competition

The Bank operates a syndication unit in the Corporate Division with a view of increasing exposure to these types of transactions, with a focus on undertaking the organizer and coordinator roll, strictly adhering to the underwriting principles, regulatory limitations and the risk appetite level. Sale of the debt is subject to the Bank of Israel instructions and the Bank's policy.
Other means for facing with the competition are the offer of professional service, timely response and establishment of a comprehensive and ongoing communication system with customers, while maintaining an overall view of their financial needs.

Credit policy in the construction and real estate activity

The credit policy for this sector focuses on the financing of operations in Israel, giving preference to borrowers having financial strength with extensive experience in this field, with whom the Bank has positive business relations.
The financing of initiating residential construction projects and income generating real-estate projects is to be executed by the closed loan method, under minimum requirements, including borrower's equity capital, required project profitability, compliance with stress tests, absorption ability, early sales and more.

Legislative and regulatory limitations and special constraints applying to the activity

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted in the Proper Conduct of Banking Business Directives no. 315 regarding a sectoral indebtedness limit, a limitation was set to apply to industry credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The rate of Bank's exposure as regards credit to the construction and real-estate industry as of December 31, 2023 reached a rate of 17.92% (17.03% at the end of 2022).
The Supervisor of Banks announced on December 7, 2020, that with the aim of continuing the support of the construction and real estate sector during the Corona crisis period and thereafter, the sectional limitation on the construction and real estate sector shall be updated, as follows: Proper Conduct of Banking Business Directives Nos. 250 and 315 in the matter of "limitation on sector indebtedness" – the effect of the relief stated in the Provisional Instruction, which allowed banks to increase exposure to the construction and real estate sector from 20% to 22% (excluding national infrastructure projects) shall be extended to the year 2025; the limitation on exposure to the construction and real estate sector (including national infrastructure projects) was increased from 24% to 26%; and it is determined that credit secured by qualified credit insurance shall be classified according to the insurer sector.
The Supervisor of Banks published on January 7, 2021, additional modifications to Proper Conduct of Banking Business Directive No. 250 (Provisional instruction for the confrontation with the Corona crisis) – within the framework of which, reference was made also in respect to Proper Conduct of Banking Business Directive No. 315 – limitation on sectorial indebtedness. The update states that the limitation on credit to the construction and real estate sector, after elimination of indebtedness of national infrastructure projects, shall be increased from a rate of 20% to 22% of total public indebtedness, and that the limitation relating to the construction and real estate sector shall be increased from a rate of 24% to 26% of total public indebtedness. The effect of the relief has been extended until the end of 24 months from December 31, 2025, provided that the rate shall not exceed the rate prevailing on December 31, 2025, or the rate of the sectorial limitation, as stated in Proper Conduct of Banking Business Directive No. 315, whichever is higher.
Requirement for a further allocation of capital. An Amendment to Proper Conduct of Banking Business Directive No. 203, was published on May 22, 2022, which states that to the list of debts averaged at the rate of 150% risk would be added loans intended to finance the purchase of land for development or building purposes at a rate exceeding 80% of the value of the purchased property (LTV). This, excludes loans financing the purchase of agricultural land having no planning horizon or intention to file a request for a change in zoning, and excluding loans financing the purchase of land for the personal use of a borrower who is not classified to the construction and real estate sector. The said Amendment took effect on June 30, 2022, though banking corporations may spread the effect of change in weight of the risk for the existing amount of loans at fixed quarterly installments until June 30, 2023.
Proper Conduct of Banking Business Directive No. 251, "Adjustments in Order to Deal with the Iron Swords War (Provisional Instruction)". On November 1, 2023, the Banking Supervision Department published an amendment to the directive, within the framework of which, inter alia, temporary reliefs were prescribed regarding the rate of financing in loans intended for the purchase of land, 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.

Market developments

Residential construction. The upward trend of housing prices that had existed in prior years stopped in 2023. Even prior to the outbreak of the "Iron Swords" War, a slight decline in the Apartment Price Index was recorded on the background of the significant slowdown in the number of transactions. Since the outbreak of the War the slowdown in the residential market has grown.
Income generating real-estate for office buildings. On the background of the rise in the interest rate, the steep growth trend in rental prices marking the year 2021 and the beginning of 2022 was curbed in 2023. Most properties maintained high occupancy rates. The slowdown in the scope of activity in the economy, in the hi-tech sector in particular, may lead to the weakening in demand for office space.
Income generating real-estate commercial buildings. The sectoral risk is still affected by long-term trends: an increase in the supply of properties (especially, neighborhood shopping centers) and expansion of e-commerce (an increase in demand for plots intended to be used as logistics facilities for the distribution of retail trade products). The growth potential corresponds with retail trade performance and, in a broader sphere, with the Israeli consumer's purchasing power and, hence, with growth and employment data.

Expected developments in the activity

Residential construction. The shortage in manpower in this sector, following the "Iron Swords" War, the rising input prices alongside certain erosion in prices and a sharp decline in the number of transactions, comprise a challenge in this sector. However, in the Bank's opinion, there is still a surplus of demand over supply, and the long-term trend continues to support the residential market.
Office and commercial income generating real estate. In the coming years, with large volumes of new office space and commercial areas coming onto the market, most in the areas of demand, surplus supply and a reduction in rentals in certain regions may occur. The income-producing real estate market is affected to a large extent by the economy's growth and employment characteristics. In addition, this sector is highly leveraged and, accordingly, is sensitive to a rise in the rate of interest.

Institutional bodies Segment (Domestic operations) - Additional Details

Condensed description of the characteristics of the segment

The segment is engaged in the management of funds of the investor population in Israel. Most of the investments comprise long-term fund investments (the major part thereof being pension savings), a part comprises medium-term investments (through further education funds) and a part comprises short-term investments (by means of mutual funds and ETFs).

Areas of operation

At present, the Bank serves large investment bodies in the capital market, which, among other, include insurance companies, provident funds, pension funds, managers of mutual funds and ETFs. The institutional bodies are active in the following fields: deposits, securities trading, securities lending, foreign currency, interest and derivatives (marketable and non-marketable).

Competition

With respect to a share in the activity of institutional bodies, the Bank competes against local banks, foreign banks and Stock Exchange members who are not banks. A trend of diverting investments to foreign markets on the part of institutional bodies has been noticed in recent years.

A Competitive Process

Once every number of years (generally three years) institutional bodies conduct a process in which they invite offers from the various Stock Exchange members for the provision of trading services in securities and related services. In certain of the cases, a competitive process is also performed for obtaining securities custody services.

Operating Services

At the present time, the Bank does not provide operating services to institutional bodies.

Financial Management Segment (Domestic Operations) - Additional Details

Dealing room

A dealing room acts for the Bank's customers to execute transactions in the global financial and capital markets, while providing personal and professional financial services. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. The combination of several fields of activity enables customers to obtain trading services in foreign currency, interest rates, securities and derivatives under one roof.
The dealing room is engaged in two principal areas of activity:

Over the Counter (OTC) trading - Foreign Currency and Interest Rate Trading

The OTC unit develops and adapts different market risk hedge transactions according to customer needs. The unit serves also as a "principal market maker" with respect to Dollar/Shekel and government bonds transactions.
The main transactions carried out by the unit with Bank customers, are: Purchase or conversion of foreign currency, non-marketable future contracts, options on currencies, interest rates and the CPI, interest swap transactions and other derivatives.

Trading in securities

Foreign securities. The foreign securities desk operates in a wide range of markets around the world, and is conducting brokerage transactions in a wide range of instruments: shares traded on foreign stock exchanges, options, state and corporate bonds, mutual funds and hedge funds.
Brokerage regarding Israeli securities. The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded in the Israeli market. The desk provides brokerage services involving both marketable and non-marketable securities (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

Global Treasury

The Global Treasury unit coordinates the financial management of the Discount Group. The Unit is responsible for the asset and liability management (ALM) in the Group's balance sheet, including the management of liquidity risk, management of interest risk, inflation risk and exchange rate risk management, and managing the capital. Within the framework of the Group management, the Unit has the role of providing mandatory professional guidance at the subsidiaries.

Following are details of the principal areas of operation of the Global Treasury:

Liquidity risk management and formation of the financing plan of the Bank. Liquidity risk management is performed using internal models and regulatory models, from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of a current analysis of changes in the volume of assets and liabilities of the Group. In addition, the unit recommends to Management and to the Board of Directors liquidity ratios goals and forms financing plans for the Bank and for the Group companies.

Managing the Capital. Formation of recommendations to Management and to the Board of Directors with respect to the equity ratio targets, formation of a risk asset budget for Group companies and business units, and its current management.

Market exposure management. The management of market exposure is conducted by means of a designated computer system, which calculates risk indices in relation to up-to-date data, reflecting the overall business activity at the Bank. The ALM committee, headed by the President & CEO, determines the market risk exposure targets, within the framework of limitations set by the Board of Directors as regards the risk appetite.

The raising of liquidity and investment of the surplus. The Treasury Desk operates mostly through the Bank of Israel tenders, deposits by corporate customers and SWAP transactions, the government bonds market and the interest derivatives market. The desk provides interest quotations for deposits of large customers in foreign and Israeli currency, invests the surplus short-term liquidity and conducts transactions for the hedging of the Bank's interest risk.

Raising of secondary capital and bonds. The Global Treasury Unit is responsible for the raising of secondary capital and bonds according to the capital planning and the financing plan of the Bank.

Transfer prices. A daily calculation of the Bank's internal transfer prices, serving as a basis for the pricing and measuring profitability of credit and deposits. The prices are being updated according to developments in the capital and financial markets.

Development of financial models. Development of models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, premature withdrawal option regarding deposits, early repayment forecasts for mortgages and more.

"Nostro" portfolio management policy. The Bank's "Nostro" Unit is subject to the decisions of investment committee and to frameworks determined by the Bank's Board of Directors.

The investment portfolio of the "Nostro" unit, manages a facility out of the surplus liquidity balances comprising investments embodying credit margin risk – inter alia, corporate bonds, state bonds and other debt instruments.

The investment activity of the subsidiary companies, in particular, IDB Bank, Discount Capital and MDB, is conducted independently, subject to the risk limitations as determined by the Bank. The Group's "Nostro" portfolios are being managed from an overall standpoint, subject to risk limitations determined by the Bank's Board of Directors.

Deposit product management

Formation of a strategy for the management of the deposit product, while providing response to changes in the business environment. The setting up and updating of products belonging to the core system of the Bank for deposit management. Production and publication of deposit interest tables.

Competition

The financial management segment includes, as stated, the Group's activity in the dealing rooms. This area is typified by a high level of competition. The principal competitors in are the four large local banking groups. Additional competitive entities in this market are foreign banks, which have opened dealing rooms in Israel, and other financial corporations engaged in foreign currency and the Shekel interest markets, the involvement of which in these markets have grown significantly in recent years.

Business Strategy and Targets

The goals for the year 2024 set for this segment are the continuation of profitability improvement, in an interest environment that is expected to go down and in a challenging macro-economic environment, and a difficult competitive environment also with respect to non-banking financial entities and fintech initiatives. All this, while maintaining a risk level according to the risk appetite of the Bank.

Investments in Non-Financial Companies

Policy regarding non-financial investments

The activity is conducted within the framework of the strategic plan, which is being updated from time to time according to the Group's risk appetite and various limitations set at the level of the portfolio and the product. Investments exceeding the determined limit are brought for approval of the Bank's Board of Directors prior to their execution.

Principal areas of operation

Practically all the nonfinancial investments of the Discount Group are being made by means of the subsidiary company Discount Capital and are divided into three principal categories:
- Investment in private equity funds (PE) and in venture capital funds (VC);
- Investment in corporations, divided into investments in traditional corporations and investments in technology companies at different stages;
- Mezzanine operations.

Non-financial investments portfolio – principal data

Scope of the portfolio. The total value of the non-financial investments portfolio of Discount Capital amounted at December 31, 2023, to NIS 2,328 million, compared with a total of NIS 2,151 million in 2022. The outstanding investment commitments of Discount Capital amounted on December 31, 2023, to NIS 881 million (approx. US$243 million), compared with a total of NIS 847 million (approx. US$241 million) in 2022, most of which in Funds the investment period of which has not yet expired.
Income. Discount Capital recorded in 2023 net income from non-financial investments in a total amount of approx. NIS 131 million. This, compared to net income in a total amount of approx. NIS 135 million in 2022.
New investments. In 2023, Discount Capital invested and made commitments to invest a total amount of approx. NIS 375 million in investment funds, in corporations and in mezzanine loans.

Investments in private equity funds and in venture capital funds

Discount Capital's strategy for investing in investment funds places emphasis on the portfolio's decentralization from the aspects of management groups, the life-stage of the portfolio companies, the activity spheres of the funds and the geographical region in which they invest. As of December 31, 2023, Discount Capital was invested in some 55 funds which were spread over 25 different management groups, most of which in two main areas: Private Equity Funds and

technology funds specializing in investments in Early Stage and in Growth Stage companies.
Discount Capital's investment balances in funds amounted to NIS 1,111 million as of December 31, 2023, and the balance of its liability to funds that had not yet reached the end of their investment period amounted to NIS 818 million (US$226 million).

Distribution of investments in private equity funds and in venture capital funds

Type of fund	Balance of investment[1]	The balance of investment commitments	A percentage of the total volume of investments[2]	Principal management groups
	As of December 31, 2023			
	In NIS million			
Private Equity Funds of the Fimi Group[3]	402	234	19.3%	
Other Private Equity Funds	183	233	13.0%	SKY, Fortissomo
Growth Funds – Venture Capital	212	184	12.3%	IGP, Qumra, aMoon
Early Stage Funds – Venture Caital	160	149	9.6%	StageOne, Vertex
Foreign funds	126	13	4.3%	
Other Funds	28	5	1.0%	
Total	1,111	818	60.1%	

Notes:
(1) The data is presented in terms of book value.
(2) According to the balance of the investment in the books with the addition of the balance of the investment commitment.
(3) Among the other management groups, there is no management group, the balance of investment therein at December 31, 2023, exceeded NIS 75 million (excluding investment commitment).

Direct investment in non-financial companies

The strategy of direct investment in corporations of Discount Capital focuses mainly on mature Israeli corporations operating in traditional fields and in technology corporations at various stages of development, including investments within the framework of the innovation program and investments in the fintech field.
The direct investments balance of Discount Capital as of December 31, 2023, amounted to NIS 928 million, in some 55 companies (as of December 31, 2022 amounted to NIS 867 million in some 55 companies).

Legislative and regulatory limitations and special constraints applicable to the investments operations

Section 23 A (a) of the Banking (Licensing) Law, specifies that the amount of any means of control held by a banking corporation in non-financial corporations shall not exceed the following proportions of the capital of the banking corporation, as shall be determined for this purpose in rules prescribed by the Governor, after consultation with the Advisory Committee and with the approval of the Minister of Finance –
(1) Up to 15% of its capital – in any non-financial corporation;
(2) Up to a further 5% of its capital – provided that it does not hold in corporation more than five per cent of a certain class of means of control and it is not entitled to appoint a director;
(3) Up to a further 5% of its capital – in non-financial corporations which are foreign corporations that do not conduct any material and continuing business operations in Israel.
As of December 31, 2023, the Bank was far from reaching the restriction on investment in non-financial corporations.
Within the framework of the Banking Law (Licensing), restrictions have been prescribed whereby a banking corporation may not hold more than 1% of a certain class of the means of control of a significant non-financial corporation or in an insurer, being a significant financial entity (a significant non-financial corporation is a corporation the volume of operations of which, or the volume of its credit exceed approx. NIS 6.5 billion or on approx. NIS 2.05 billion in monopolized markets, and which is included in the list of significant non-financial corporations published according to the Concentration Law). Notwithstanding the aforesaid, a banking corporation may hold more than 1%, but not more than 10%, of a single significant non-financial corporation or of an insurer, being a significant financial entity. As of December 31, 2023, no violation of these restrictions exists.

With respect to an immaterial investment in a corporation operating in the financial sector, made by a subsidiary of the Bank, the controlling shareholder of that corporation reported in March 2023, the crossing of the monetary upper limit relating to the classification of the controlling shareholder and corporations under its control as significant nonfinancial corporations. In accordance with the provisions of the Banking Law (Licensing), a banking corporation is not allowed to hold over 10% of the equity of more than one significant nonfinancial corporation and over 1% of a certain class of control means in additional significant nonfinancial corporations. On June 1, 2023, the Governor of the Bank of Israel instructed the Bank to sell its surplus holdings in the corporation within a year from the date of it becoming a significant non-financial corporation. Until the aforesaid sale date, the Governor has instructed the Bank not to make use of the voting or other rights conferred on it by virtue of the means of control held at a higher rate than that legally permitted (10%), other than the right to receive dividends. On December 21, 2023, the Governor of the Bank of Israel informed the Bank that, in view of the "Iron Swords" War, the date for the sale of the excess holdings in the corporation would be at the end of two years from the date of it becoming a significant non-financial corporation, and not at the end of one year. The remaining stipulations will be unchanged.

International Operations Segment - Additional Details

General

The foreign operations of the Discount group are conducted by a subsidiary company in the United States (for details regarding the closing down or sale of operations of part of the extensions, see below).

Business Strategy, Goals and Points of Emphasis

In 2023, IDB Bank continued in the implementation of its five year strategy. The strategic plan has been updated and places emphasis, inter alia, on liquidity and growth aspects, as well as on workforce retention. As part of the strategy, IDB Bank expanded its activity in the field of financial wealth management, by way of establishing a joint venture with IDB LIDO Wealth LLC., a joint venture with LIDO Advisors LLC., with a leading American entity in this field. The operation has been granted the necessary regulatory approvals in the United States and a permit was received for it from the banking supervision.

Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations

Exposure restriction with regard to overseas extensions. According to guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.
On December 31, 2023, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 13.49% of total risk assets, as compared with 13.91% on December 31, 2022. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group (restriction of the exposure rate, as stated, was 25% on December 31, 2022). The Bank monitors the development of the Risks assets for its operations in overseas extensions.
IDB Bank – Risk Based and Leverage Capital Ratios. Beginning on January 1, 2015, IDB Bank became subject to new Basel III capital rules based on the final rules published by the FRB in July 2013 (the "Basel III Capital Rules"). The new rules establish a new comprehensive capital framework for U.S. banking organizations.

The rules apply to all depository institutions and banks holding companies with total consolidated assets of $500 million or more, Among other things, the new rules establish a new common equity tier 1 ("CET1") minimum capital requirement and a higher minimum tier 1 capital requirement, and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real estate. The rules also limit dividend distributions by certain banking organizations as well as discretionary bonus payments if the banking organization does not hold a "capital conservation buffer", consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer came into effect in 2016.

The Basel III Capital Rules became effective on January 1, 2015, subject to a phase-in period. The minimum capital ratios required as of January 1, 2016 are as follows:

- 4.5% CET1 to risk assets;
- 6.0% Tier 1 capital to risk assets;
- 8.0% Total capital to risk assets; and
- 4.0% Leverage ratio.

IDB Bank complies with the requirements.

U.S. legislation. The Bank and its U.S. banking subsidiaries and affiliates are subject to extensive regulation and oversight both at the federal and state levels. The Board of Governors of the Federal Reserve System ("FRB") has the authority to supervise the Bank as a "foreign bank" under US law because it conducts operations in the United States through its wholly-owned subsidiary, Discount Bancorp, Inc. New York, New York, ("Bancorp") , which, in turn, fully owns Israel Discount Bank of New York ("IDB Bank"). The Bank and Bancorp are required by the FRB, in accordance to the law applicable to banking holding companies and the FRB's policy, to serve as a source of financial and managerial strength to IDB Bank.

IDBNY is regulated by the Federal Deposit Insurance Corporation ("FDIC") and the New York Department of Financial Services ("NYDFS"), and given its current total asset size exceeding $10 billion, the Consumer Financial Protection Bureau ("CFPB") (the FRB, the FDIC, the NYDFS and CFPB are collectively referred to as the "US Regulators").

The US Regulators have the authority to adopt public and non-public enforcement measures, in different circumstances, including in cases of identifying financial or operating weaknesses, deficiencies in corporate governance or other deficiencies, as well as cases of violation of Regulations. Within the framework of these enforcement measures, US Regulators may order different measures, including measures to correct deficiencies or the discontinuation of certain practices, as well as increasing capital, limiting growth, restricting profit distributions, termination of office of Officers, and assessing civil fines or penalties.

BSA/AML. As required under the USA PATRIOT Act and the Bank Secrecy Act (the "BSA"), IDB Bank has adopted a BSA compliance program, which includes policies, procedures and controls for the prevention of money laundering and terrorist financing. As a result of the identification of certain issues regarding IDB Bank's BSA compliance program as part of a review by the FDIC and NYDFS, IDB Bank signed on May 24, 2023, parallel consent orders with the FDIC and the IDB Bank (collectively, the "Consent Order"). Such Consent Order requires IDB Bank, among other things, to make further enhancements and adjustments in its policies, procedures, controls and in the staffing levels, and a review of prior transactions within timespans specified for this in the agreed order. IDB Bank is in the process of taking the actions and enhancing the processes that it is required under the Consent Order. As a result, there has been an increase in IDB Bank's staffing levels and operational costs.

The Consent Order does not include fines or penalties and does not require additional capital or any other restrictions on IDB Bank's ongoing business activity or on the implementation of its strategic plan. However, the Consent Order may limit IDB Bank's ability to obtain regulatory approvals for new business initiatives that require such approval and could negatively influence reputation. Non-compliance with the Consent Order or with US law requirements could subject IDB Bank, Bancorp, and the Bank to additional enforcement actions. As from the date of signing the agreed order, the agreed order is in effect and be enforceable until it is modified, suspended, terminated or set aside by the US Regulators.

As part of the implementation of the monitoring and oversight by the Bank over IDB Bank as an overseas subsidiary, the Bank continues to monitor and oversee the actions performed by IDB Bank under the Consent Order. The Bank believes that the Consent Order will not have a material financial impact on the Bank's results.

Forward looking information. Part of the above information forms forward looking information constituting an assessment based on existing information at the hands of the Bank at date of publication of these reports. Such information includes, inter alia, reference to future events, the materialization of which is uncertain, based on assessments and data at the hands of Management of the Bank, and is conditional upon the existence of different factors, which existence is uncertain, inter alia, in relation to the possible effects of the agreed order.
Guidelines of the Supervisor of Banks. In 2016, the Supervisor of Banks published several guidelines regarding cross-border risks, which have been applied by the Supervisor of Banks also to operations of a banking corporation outside Israel. Accordingly, IDB Bank is preparing for the implementation of these guidelines with modifications required by the local laws applying to it.

Taxation

For details regarding taxation of overseas banking subsidiaries, see "Taxation" hereunder and Note 8 L to the financial statements.

Service to Segment Customers

In addition to the main branch in New York and the branches in Brooklyn and New Jersey, IDB Bank operates branches in South Florida, and South California. IDB Bank offers diverse private banking and commercial banking services, both to US and international customers.

Services and Principal Products of IDB Bank

Credit. IDB Bank provides bank credit to a wide array of U.S. and Israeli corporations, operating in the U.S., to their shareholders and to private banking customers.
Middle Market. IDB Bank grants credit to the middle-market segment, operating in various fields in the New York metropolitan area, Miami and Los Angeles. Customers are being offered a large variety of services, including foreign trade and financing operations in respect thereof, the financing of commercial real estate, including financing the purchase of commercial real estate and the financing of housing projects (Multi Family), as well as the financing of the health institutions, not-for-profit organizations and domestic activity of Israeli corporations.
Revolving Credits. These loans include the financing of inventory and trade receivables and allow the financing of working capital through the leveraging of the customer's current assets.
Factoring. This activity includes instituting credit facilities against trade receivables of the customer and allows him to improve the collection process from such customers.
Hi-Tech customers. Activity that includes the granting of credit to hi-tech customers (Hi-Tech lending).
Private Banking. IDB Bank provides varied private banking services to customers, who are U.S. residents (local private banking) through IDB LIDO Wealth LLC., a joint venture with LIDO Advisors LLC., as well as non-U.S. residents (international private banking), having a high level of personal wealth.
At the disposal of these customers are, among other things, securities management and trusteeship services as well as different credit services, and products and services of IDB Capital, as subsidiary of IDB Bank, engaged in securities transactions and insurance products in behalf of customers.

Credit Card Operations

Structure of the field of operation

Use of credit cards as means of payment is made possible upon the combination of several factors, an issuer, a clearing agent, a trader and a customer (the credit card holder), all of which are bound by separate and independent agreements (direct or indirect agreements, by virtue of the issuer and the clearing agent being members of an international organization that provides the franchise for the credit card brand name, when cases exist where the clearing agent is also the issuer of the credit card, and cases exist where there is no identity between the clearing agent and the issuer). These contractual engagements provide the infrastructure for communicating the relevant data for settling the payments relating to transactions paid by credit cards.
The card holder has a contractual engagement with the issuer, to whom he pays a fee for the issue of the card and its current operation. The trader enters into an agreement with the clearing agent. In this framework, the clearing agent, in consideration for a commission, undertakes to credit the trader related to it, in a manner secured in advance, with the consideration due to the trader for the transactions made with him by the customers holding the credit card of the brand that is being cleared approved by it and examined with the issuer. The commission collected by the clearing agent for clearing services to the trader is the "Trader commission". The clearing agent, on his part, pays the issuer an issuance commission called "Cross commission". This commission is embedded in the trader commission collected by the clearing agent. Namely, the trader commission is composed of the clearing commission and the issuer commission.
According to publications by the Central Bureau of Statistics, over 90% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an average of 2.3 cards in their possession. ICC estimates the number of credit cards in Israel at December 31, 2023 was approx. 13.7 million. Furthermore, there are approx. 250 thousand terminals of trading houses and chains in Israel, which allow purchases by means of credit cards.

The Operations of ICC

ICC operates in two sectors of the main activity in the credit card market: issuance of credit card (including finance to private individuals) and clearing of credit card transactions.
ICC directly issues, markets and operates credit cards of the "VISA", "Diners" (exclusively) and "MasterCard" types, valid in Israel and abroad, and also has joint issue agreements with banks that participate in the arrangement. The Bank is currently engaged in a joint issuing agreement with ICC, Diners and MAX (see Note 36 B 1).
In the issuance field, ICC issues (directly and through Diners Club, a fully owned and controlled company) credit cards that are divided into two main groups: (a) Bank credit cards - issuance of cards to customers of banks in the arrangement with which ICC has agreements for co-issuance. These cards are issued and operated by ICC, which bears the damages resulting from the counterfeiting or theft of the cards. On the other hand, the banks provide credit to the customer and bear the entire credit risk. ICC estimates that, as of September 30, 2023, based on the financial statements of its competing companies, ICC's market share of the total bank card issuance turnover is approx. 32%; (b) Off-banking credit cards - issuance of cards directly by ICC. As regards to these cards ICC, through subsidiary companies, provides to the customer the credit facilities and bears the overall risk relating to transactions made by use of the card. At date of this Report, most of the off-banking credit cards are, mainly, being issued by way of collaboration with customer clubs. ICC estimates that, as of September 30, 2023, based on the financial statements of its competing companies, ICC's market share of the total bank card issuance turnover is approx. 33%.
ICC offers its customers various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through business partners, spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice – "CAL Choice" and more), as well as rechargeable cards.
ICC invests resources in making its services accessible by way of constructing an Application and an Internet website that allow operations such as recovery of the PIN code, choosing a PIN code, biometric identification and the possibility of effecting payments by means of the Application, as well as offering information services and various

confirmations. Moreover, in recent years, ICC signed agreements for the offering of payment services by means of the Apple Pay and Google Pay payment platforms, following which, use of the mobile telephone as a mean of payment has increased.
ICC clears ”VISA”, ”Diners” and ”MasterCard” credit cards that are valid in Israel and abroad, and ”IsraCard” credit cards (in Israel only).
ICC offers its customers in the clearing field financial services, such as: the grant of loans; payment of advances on account of future credit balances that trading houses expect to receive for regular business transaction vouchers; discounting services for trading houses, viz., crediting the business with one immediate payment, after deducting commission, in exchange for regular business transaction vouchers and payment transactions; and also, various programs to bring forward the business’s normal crediting date in exchange for a fee.

Quantitative data regarding the activity of ICC

	December 31, 2023		December 31, 2022	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	2,471	2,123	2,323	2,013
Off-banking cards	1,932	1,344	1,882	1,317
Total	**4,403**	**3,467**	**4,205**	**3,330**

Transactions turnover		
	For the year ended December 31, 2023	For the year ended December 31, 2022
	in NIS millions	
Bank cards	115,645	107,091
Off-banking cards	47,357	42,760
Total	**163,002**	**149,851**

Notes:
(1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
(2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
(3) "Valid card" - A valid credit card which is not blocked.
(4) "Transactions turnover" - Includes transactions made using the credit card and debits for transactions payable in installments, less the credits made to the banks or their customers for the use of credit cards during the same period and fees and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
(5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

New activities and strategic collaborations

The “Iron Swords” War. ICC’s activity is directly affected by the Israeli economy’s activity and, therefore, the war may have a material effect on the scope of ICC’s transaction turnovers (shortly before the date of publishing the report, ICC estimated that transaction turnovers had decreased by approx. 15%-20% from their scope prior to the outbreak of the war), on the levels of demand for credit and also on ICC’s credit losses, with respect to customers or trading houses that will be adversely affected by the consequences of the war.
In the fourth quarter of 2023 and at the beginning of 2024, an adverse effect occured due to a decrease in fees due to benefits granted to customers; due to a decrease in the activity volumes of Israelis abroad (and accordingly, it is possible that the goals of the international organizations will be only partially met, depending on the scope of the harm), from a decrease in income from cross commission deriving from the volumes of activity in the affected industries; and, from a decrease in clearing income. At this stage, in view of the uncertainty regarding the war’s duration, intensity, scope and consequences, the overall financial ramifications of the war cannot be estimated.
The Strum Law. For details regarding the uncertainty stemming from the implementation of the Strum Law, see Note 36 B to the financial statements.

Arrangements following the Strum Law. For details regarding the signing of agreements between ICC and Bank Leumi and ICC and Bank Hapoalim on the one hand, and between the Bank and LeumiCard on other hand, see Note 36 B to the financial statements.

An agreement for cooperation with Electra Consumer Products and Hapoalim Bank. On August 9, 2022, ICC signed a tripartite agreement with Electra Consumer Products (1970) Ltd. ("ECP") and with Bank Hapoalim, for cooperation in connection with the activity of a customer club based on an off-banking credit card issued by ICC, intended for BIT customers and for customers of the retail stores chains of ECP, in which customers of the BIT-CAL Club and customers of the Family 365 Club would be included ("the Club"), for a period of twelve years from date of fulfillment of the conditions precedent according to the agreement.

On April 30, 2023, approval of the Competition Authority was received for the merger of the consumer clubs of BIT-ICC and of Electra, also issued was a conditional exemption from the duty to obtain approval of the Court for the agreement (including a condition instructing the parties to verify that the essence of the agreement is not to reduce competition and that it would not limit or significantly impair competition). The exemption is granted for the period of the agreement, but the Competition Commissioner may terminate it on a date determined by her. In continuation of the discussions held with the Competition Authority and of the terms determined in the exemption, including with respect to credit, the parties have updated some of the commercial accords in the agreement. The conditions precedent were fulfilled on August 6, 2023, and the transaction was consummated. The customer loyalty club was launched in a soft launch on August 15, 2023.

Success in a tender by the Accountant General. On September 19, 2022, the Tender Committee in the matter of means of payment at the Department of the Accountant General informed of the success of ICC in a tender for the management and issue of advanced means of payments. The aim of the tender was to simplify and improve efficiency of the acquisition and payment processes of Government offices, and which is expected to provide response both crosswise for acquisitions in small volumes by Government offices and for acquisitions regarding designated units and projects, such as: policemen, school headmasters, persons supported by the Welfare Ministry and more. The tender defines an innovative fast and digital payment mechanism that would significantly shorten for the Government the length of the acquisition and payment processes alongside increasing the control and transparency mechanisms. Success in the tender is expected to induce growth in the scope of activity of ICC's charge cards, in a volume, that at this stage cannot be estimated.

New credit card launch. On May 29, 2023, ICC launched its "Cash CAL Pro" card, which is a "cash back" card for transactions in Israel and overseas, which card grants its holders a monetary refund (cash back) of up to 1.5% on every purchase in Israel and overseas, a reduced fee on foreign currency transactions and discounted entry to more than 1,200 VIP airport lounges throughout the world.

Vehicle credit financing. In May 2023, ICC launched a credit financing activity for vehicle purchasing. Entry into the vehicle purchase financing field will enable ICC to enlarge the scopes of its consumer credit balances, while managing the risk and basing the activity on a collateral-backed product.

Launch of card for children. In September 2023, ICC launched My Cal, a credit card for children. My Cal, which will be issued to children of any age, will allow parents to immediately load the card via digital channels. The new card offers a 10% refund ("Cash Back") at leading chains for children.

Entering Aggregator agreements in relation to the "Diners" and "American Express" brands. On July 23, 2023, Diners (which clears and issues "Diners" brand charge cards in Israel) and IsraCard signed a detailed agreement in connection with entering into an Aggregator agreement, within the framework of which IsraCard will be allowed to act as an Aggregator of trading houses in Israel under the "Diners" brand. In addition, ICC and Premium Express Ltd. signed a detailed agreement in connection with entering into an Aggregator agreement, within the framework of which ICC will be allowed to act as an Aggregator of trading houses in Israel under the "American Express" brand. The detailed agreements contain terms and conditions that are customary in Aggregator agreements and are valid for 12 months at a time, being automatically renewed for a further 12 months at the end of each period, for an overall period of five years, unless one of the parties gives notice of its desire to cancel one of the agreements prior to this, as prescribed in the agreements.

Engagement with GAMA Company. On July 6, 2017, ICC entered into an agreement with GAMA Management and Clearing Ltd. and with GAMA Personal Direct Finance Ltd. (hereinafter: "GAMA"), within the framework of which, GAMA would become an "Aggregator" enabling credit card transactions using the services of GAMA and ICC.

The signing of this agreement conforms to the provisions of the Increase in Competition and Reduction of

Concentration in the Banking Market in Israel Law, which includes rules intended to increase competition in clearing operations. Management of ICC is of the opinion that the agreement would improve the value offer to the small and medium trading houses. The period of the agreement was extended in 2019 until January 5, 2025.

Cooperation agreement with PAZ. On February 20, 2022, ICC signed an agreement for the cooperation with PAZ Oil Company Ltd. ("PAZ"), in the marketing of loans extended by ICC at its responsibility, through the "Yellow" Application, to members of the Yellow Customer Club. The agreement is in effect for a period of three years, and PAZ has the option of extending the agreement by two additional periods of twelve months each. It would be possible to terminate the agreement at an earlier date upon existence of certain causes of action relating to the volume of operations. The agreement regulates the consideration payable by ICC to PAZ, based upon the actual profits of ICC earned on loans extended within the framework of the operation.

Outsourcing sale and service centers. ICC has entered into an engagement with a principal supplier for the operation of sale and service centers for private customers of the company. The agreement with this supplier is for a fixed period of 12 months, renewable automatically to two additional periods of 12 months each, with the parties having the right to terminate the agreement by giving prior notice of 6 months. The said sale and service centers have interfaces with the company's systems, allowing their operation. ICC has engagements with additional suppliers for the operation of outsourcing sale and service centers.

Additional developments in Operations

For details regarding the separation of ICC from the Discount Group, see Note 36 B 1 to the financial statements.

Support agreements with Visa Europe Limited. In December 2023, ICC and Visa Europe Limited signed a support agreement. The scope of the support funds depends on different stipulations stated in the agreement, and mainly on the volume of operation of ICC and in the introduction of new activities. ICC estimates that the anticipated impact of the support agreement on the one hand, and the growth in operations on the other hand, is not expected to be material. This assessment might change in case the volume of transactions using the "VISA" brand would be materially different than that existing on date of signing the agreement.

Provision for benefit campaigns to holders of credit cards. In recent years, ICC informed its customers that the validity of certain benefit plans that had been offered to them would be limited in time. The validity of certain benefit programs expired during the third quarter of 2021. For these benefits, ICC includes a provision in its books, and accordingly, expiry of the benefits resulted in a decrease in the said provision.

Changes regarding competition in the credit card market

The competitive environment in the credit cards field, which is growing constantly fiercer in recent years, is affected, inter alia, from the following factors:

- The increased competition between the clearing agents, inter alia, on ground of the detachment of Isracard and MAX from the banks, alongside the impact of the regulatory measures taken by the Supervisor of Banks, and also in view of the steps taken by the credit card companies, has been reflected in the decline in clearing commissions;
- Banking corporations have launched payment solutions which may operate outside the debit cards framework. Among these, the following apps should be mentioned: PayBox (Discount Bank) and BIT (Bank Hapoalim), as well as progress on a system for immediate account-to-account debiting and crediting, which is being promoted by BCC, and which is likely to constitute an alternative to the debit cards framework;
- The technology giants offer financial services in Israel. In 2021 Apple introduced its payments Application "ApplePay", and Google introduced the digital wallet "Google Pay". Entry into the local payments market of the technology giants is expected to increase competition and comprise a catalyst for innovation and technology in this field;
- In addition, fierce competition exists in the customer clubs field, which, inter alia, was expressed in the commercial terms of a number of agreements signed in the credit card field;

- Competition in the off-banking credit field has also increased in view of the significant increase in the number of financial entities offering loans to households, such as: provident funds, further education funds or inter-personal loan platforms (P2P). Various regulatory measures, introduced by the Supervisor of Banks, such as the establishment of a credit data base, are expected to further increase the volume of competition and enable providers of off-banking credit (including ICC) to obtain more reliable information regarding existing and potential customers;
- The Financial Information Service Law, 5782-2021, published in November 2021, and Proper Conduct of Banking Business Directive No.368 on Open Banking, published on February 24, 2020, require banks, credit card companies, and other financial entities to share information about their customers (with the customer's consent). The Directive will even allow initiation of payments. Open banking constitutes an opportunity for ICC but will also permit other entities to receive the unique information that the credit card companies hold, as well as increasing competition in the payments field by means of payments initiation.

ICC had prepared and is preparing for such changes, and has formed a strategy aimed at enabling it to handle these changes in an optimal manner (for additional details, see above "Main Investee Companies").

Regulations, Legislation and Arrangements

General. The activities of ICC are regularized under the Credit Card Law, 1986 and various rules under the general law also apply to it. Upon the Payment Services Law taking effect, the Debit Cards Law was revoked. For details regarding the Payment Services Law, see "Legislation and Supervision" below. In addition, due to the fact that ICC is a subsidiary of a banking corporation, it is defined also as an "auxiliary corporation" under the Banking Law (Licensing), 1981, and as such, a set of Laws, Regulations and Orders under the banking laws also apply to it including various directives issued by the Supervisor of Banks. A major limitation that applies to ICC within the framework of the Proper Conduct of Banking Business directives is the single borrower, group of borrowers and indebtedness for all the six major borrower groups limit.

Among other things, ICC is subject to duties relating to the prohibition of money laundering and the finance of terror, including the duties of identification, maintenance of records and reporting to the Money Laundering Prohibition Authority, as regards everything relating to holders of credit cards and to trading houses with which ICC has clearing agreements. Likewise, ICC is bound to operate according to the rules of the international organizations of which it is a member (VISA International organization, MasterCard Worldwide organization and Diners Club International). These rules are updated from time to time and determine international standards.

The Competition Commissioner. The Competition Commissioner is involved extensively in the field of credit card activity. For details as to the arrangements between the credit card companies and for details regarding an amended cross-clearing arrangement, see Note 36 A 1 and 2 to the financial statements.

Statement by the Ministry of Finance in the matter of an exclusive issue and clearing brand. On July 24, 2017, the Ministry of Finance informed ICC that to the extent that the maximum trading house commission on local transactions, with respect to the brand the issuing and clearing thereof is exclusive, would be reduced over the years 2017-2020 in four significant tranches, as detailed in the notice, then, in respect of that period, the Minister of Finance does not see any need to use his authority under Section 36 M (a) of the Banking Law (Licensing), 5741-1981, or to support Bills the significance of which is identical to the use of the said authority, or which interfere directly with the brand commission over and above the reduction outline described above. The company has acted in accordance with the said outline. On August 11, 2021, the Bank of Israel notified ICC that the possibility of cross-clearing the Diners brand and the significance thereof were being examined, and it requested ICC to furnish information that, in its opinion, would assist in formulating a position on this matter. On December 21, 2021, the Ministry of Finance informed ICC that the examination of possibly allowing the cross-clearing of the Diners and American Express brands had begun.

In continuation thereof, on August 1, 2022, the Ministry of Finance informed ICC regarding an outline, by which, issuers of the closed brands ("Diners" and "American Express") shall allow each licensed clearing agent to engage in an aggregator agreement with them, and to summarize debits and credits of trading houses for transactions made by way of charge cards of the closed brands. The position of the Treasury is that, to the extent that the said outline would take effect within 120 days, there will be no need to apply the authority of the Minister of Finance according

to the law, to determine that an issuer with Wide-Ranging Activity (which includes ICC) shall not refuse to engage with a clearing agent in order to settle cross-clearing of transactions made by use of charge cards issued by him, based on unreasonable arguments, also with respect to the closed brands. According to the outline, the Ministry of Finance intends to examine the state of affairs in the market, and the progress made by the parties in applying the said outline, and accordingly, reach conclusions with respect to the need to apply the authority of the Minister. It is noted, that according to the outline, ICC might serve as an aggregator for the "American Express" brand.
It is noted that at date of this Report, the subsidiary of ICC, Diners Club Israel Ltd. is engaged in agreements with several aggregators granting them the ability to offer trading houses clearing services for the "Diners" brand under terms agreed with each aggregator.
According to assessments of ICC and the Bank, implementation of the outline may on the one hand increase competition in the clearing sector in general and in the closed brands ("American Express" and "Diners") in particular, and respectively, might bring a decline in income from the clearing segment of ICC. On the other hand, the outline may widen the coverage of the closed brands in the clearing market to additional trading houses.
ICC signed an agreement with Tranzila Ltd. as well as with CardCom Ltd., and signed an agreement in principle with Isracard Ltd. for the latter's operation as an "Aggregator" in the Diners brand. In addition, ICC signed an agreement with Premium Express Ltd. to regulate ICC's activities as an aggregator in the "American Express" brand. ICC also conducted discussions with representatives of the Ministry of Finance with respect to such engagements.
The said agreements contain terms that are accepted in Aggregator agreements, and are in effect for a period of 12 months, renewable automatically to additional periods of 12 months at each time, for a period of up to 5 years in total, unless any of the parties informs of his wish to terminate earlier any of the agreements, in accordance with the terms stated therein.
Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 5776-2017. For details, see "Legislation and Supervision" below.
Draft Proper Conduct of Banking Business Directive in the matter of retail credit management. For details, see "Legislation and Supervision" below.
Daily accounts settlement. According to the decision of the Competition Commissioner from April 25, 2018, with effect from July 1, 2021, money transfers between an issuer and a clearing agent with respect to transactions executed in a single payment are carried out not later than the day following the date of the trading house transmitting the transaction.

Critical Success Factors

The issuance field. There are several positive factors that affect the competitive position in the sector, which include, among other things: products and services that appeal to varied population of customers, ICC's image and brand names, quality and experienced human resources, efficient and well developed risk management layout and credit controls, information systems and advanced infrastructure, technological level that allows providing a response to changes and the development of new products, long-term agreements with banks for credit card issue arrangements, the ability to issue leading brand name credit cards ("VISA", "MasterCard" and "Diners"), an extensive layout of agreements with customer clubs of varied population segments, a solid capital structure, the ability to borrow funds from financial institutions at beneficial terms and the ability to recruit and retain customers through a dedicated marketing array.
On the other hand, several factors have a negative effect on the company's competitive position, headed by: the development of alternative means of payment, which may reduce the demand for the issue of credit cards, entry of retail factors into the credit card issue market, and frequent and significant regulatory changes, mostly on the part of the Supervisor of Banks and the Competition Commissioner, such as the lowering of the cross commission rate, issue arrangements for the issue of immediate debit cards, and more.
The clearing field. There are several positive factors that affect the competitive position of the company in the sector: cumulative experience in the field of credit card clearing; an efficient service layout providing suitable solutions for trading houses; advanced information and infrastructure systems; a professional and efficient risk management layout; experienced and quality human resources; an extensive and efficient marketing and sales layout, which enables the attraction and preservation of customers; a reputable and powerful brand name; constant

development and expansion of the product and services basket; the existence of cross-clearing agreements between all clearing agents in the country; holding a license from international organizations allowing clearing of their brand products; existence and distribution of a communication layout enabling clearing or communication with ABS; a solid capital structure and a positive cash flow.
Negative factors affecting the competitive position of the company, are: technological improvements creating alternative means of payment, which might reduce the use of credit cards; regulatory guidelines regarding the clearing switch and the possibility of trading houses changing clearing entities at their own discretion, as regards the leading brands: "VISA", "MasterCard" and "IsraCard",technological developments that create the possibility of developing alternative means of payment; a change in the competitive arena due to the entry of competitors in the clearing field.

Market entry barriers

The issuance field. An entity interested in entering the credit card issuance market faces several barriers, the principal of which are: attaining certain qualifying terms required for obtaining a license from any brand name international credit card issuing organization; maintaining an extensive and costly operating layout, including advanced information and customer service systems; a continuous and considerable investment in marketing channels; countrywide distribution and sales, especially distribution channels regarding banks and customer clubs; financial soundness allowing the raising of funds at advantageous terms; maintaining an efficient and advanced credit risk rating system; the requirement of minimum equity capital in order to comply with the instructions of the Supervisor of Banks regarding the ratio of capital to risk components.
The clearing field. The main barriers facing a company wishing to enter the clearing segment are: obtaining a license from the international organization owning the credit card brand, which the new entrant wishes to clear. Obtaining such a license requires compliance with business and financial standards securing such an operation; distribution of an extensive communication layout allowing online clearing, or alternatively, engagement with ABS, which has such a layout; existence of a reliable and stable information system for billing management; financial means, experience and knowhow required for investment in technology, operating systems, advertising and marketing; considerable clearing turnover allowing the recoupment of amounts invested in clearing infrastructures; minimum equity capital requirements; customer service layout and extensive and efficient attraction of customers layout, as well as a risk management and fraud monitoring capability.
At the same time, the "Strum" Law sets out terms for their activities and their entry into activities in the field of host clearing agents and aggregators, which make it easier for new players to enter the clearing sector (as players supported by the clearing infrastructure of the clearing agents). These bodies have a lower threshold for entry into the sector, and accordingly, the aforementioned entry barriers may not be relevant, or may be less powerful, in connection with their activities.

Alternative Products

There are numerous alternative payment means to credit cards, from cash, to standing orders, bank transfers, purchase vouchers and checks, rechargeable cards and credit from banks and off-banking credit companies, as well as convenient, available, high-tech alternative products such as: payments by smartphone and the "digital wallet" service.

Marketing and Distribution

The issuance field. Marketing and distribution in the issue segment are achieved mostly by increasing cooperation with banks participating in the arrangement as well as with customer clubs. The said banks serve as a "recruitment base" for ICC in attracting bank customers to its ranks, while the customer clubs serve to attract off-banking customers. Joining the customer clubs, generally grant participants with discounts and benefits in a variety of trading houses. In addition, ICC cooperates in marketing drives with leading businesses in the country and operates advertising and marketing channels using the different media and through sales stalls. The principal customer clubs at present are Shufersal, FlyCard, Cal-365, Carrefour, Cal-H&O, PowerCard and Hitechzone.

Distribution of non-bank cards is based, usually, on sales-promotion agreements with companies, which operate distribution stands on their sales floors.

ICC has an active Internet website that provides information regarding its products and services, marketing drives, discounts and benefits, and allows access to accounts of card holders for the purpose of monitoring and control of their activity. In addition, ICC operates an application for smart phones that allows the monitoring of customer transaction as well as information regarding ICC's services, benefits and various discounts.

The clearing field. Sales representatives market clearing services to the traders, and serve as liaison officers with the trading houses, also following their joining. In addition, ICC operates a unique Internet website for trading houses, which includes information regarding previous and future settlement of accounts, ordering of reports and invoices at the single trading house level and chain level and receiving them in a secured safe, and more. The marketing of clearing services is also performed by means of GAMA Company (for details of the agreement with it, see above "New activities and strategic collaborations") and also by means of a company engaged in the field of supplying credit terminals and agreements with aggregators.

ICC's main objectives in its marketing operations are: the retention of existing trading houses as customers; providing marketing, financial and operational services, which include a combination of coupons and personal messages in the charge notifications sent to the cardholders, information regarding the trading house's previous and future credits; improving and enhancing its image; recruiting new businesses for its services; and, enlarging the basket of services that it offers.

Competition

The issuance field. The competitors of ICC in the issuing field are the IsraCard, MAX IT Finance Ltd. and off-banking finance companies. As part of the competition in this segment, ICC competes over new customers having no credit cards, or over customers holding credit cards of competitor companies, as well as acting in various ways in order to preserve existing customers and preventing their leaving to join its competitors. The competition is noticeable also in the new payment solutions field, inter alia, Application based and in the digital wallets field. Furthermore, ICC makes efforts in marketing and the granting of discounts and benefits to its card holders, in order for them to use the company's credit card for most of their purchases, and also offers them varied credit services as an alternative to or addition to regular bank credit.

The scope of credit card usage in Israel is constantly rising (except for a certain slowdown in 2020 due to the impact of the Corona crisis). In particular, e-commerce activity on the Internet has grown in recent years, with the volume of purchases made online, including purchases made using smart phones, having grown considerably in recent years.

The clearing segment is characterized by a high level of competition. In view of the strong competition, the clearing margin eroded continuously in recent year. The ample competition and the absence of obstructions in the transit of trading houses between the different clearing agents compel ICC to invest resources in attracting trading houses and in retaining them. Various regulatory changes may bring about the entry of additional clearing agents and increase competition in this segment.

ICC is competing in order to expand the range of businesses that receive clearing and supplementary services from it and is focusing on recruiting new businesses to sign clearing agreements and on retaining existing trading houses as its customers, through investing in marketing and sales efforts.

Another aspect of the competition in the segment relates to the development of financial and operational products and services for trading houses, which will lead to a rise in the scope of those businesses' turnover with ICC.

In order to cope with the competition in the segment and to strengthen trading houses' loyalty toward it, ICC is implementing the following measures: a competitive tariffs policy, investment of resources for the improvement of service to trading houses and for their retention, while aligning the products and services to the business' needs; strengthening cooperation with trading houses; activating an efficient service array and marketing and sales array that will be able to provide solutions to trading houses and to respond to their changing needs; development of added value products all along the value chain regarding payments; marketing a comprehensive basket of products to trading houses, while enlarging market share in the segment.

Technological changes having the potential to materially impact the issuance sector

The technological changes, which in recent years have been ever increasing, are creating changes in two main dimensions. The first is an effect on consumer preference, and the second is technological change, which enables the establishment of technological initiatives characterized by simplicity, availability and costs that are significantly lower than in the past. Among the aforesaid, technological changes are taking place that directly affect the world of payments, such as tokenization (a technology that allows information to be retained securely), card on file (storage of information regarding the means of charging by the service provider) and Contactless (without physical contact) payments, as well as other new payment methods.
In recent years, the players in the payments market have been investing considerable efforts in introducing payment methods based on payment applications, for making payments between private individuals (P2P), as well as for making payments to trading houses. These payment applications, along with payment applications of trade and retail players, are based on a wide range of technologies. Although the charge card provides the finance for the payment application, the development of mobile device-based payment methods has an impact on the necessity for physical cards. In addition, technological and regulatory changes that will support the transition to using the application through a direct debit to the bank account may harm revenues from the issuance sector.

Business Goals and Strategy

The issuance field. Leading the market through the exhaustion of the banking lane and through offering solutions adapted to customer needs, issuance of charge cards in the off-banking lane in existing customer clubs, as well as through the cooperation with various entities for the establishment of additional customer clubs.
Moreover, ICC is active in becoming a significant player in the consumer credit market, the attraction of off-banking card holders being the infrastructure for the creation of consumer credit and the positioning of ICC as a factor providing diverse credit services (including by means of credit cards), while ensuring the quality of the portfolio. This is done by expanding data usage and improving underwriting models, expanding distribution channels and improving digital marketing capabilities. In addition, ICC is working to expand the value offer to its customers through a variety of new credit products.
The clearing field. The principal goal of ICC is to market an overall array of products to trading houses, while enlarging its market share in the clearing sector. Furthermore, ICC is taking steps towards developing and market additional products to be offered to traders, in addition to those offered at the present time. ICC is acting towards the offering of different financing and payment solutions for trading houses, while maintaining risk appetite, also by way of introducing new products backed by collateral and by the discounting of payments by way of "Yatzil" Company.

For additional details, see Note 36 to the financial statements.

Technological Improvements and Innovation

General. Among the goals of the Bank's strategic plan, is the goal of the implementation of technological means and increasing customer experience.
Expanding the open banking services. The Bank has defined the open banking field as a strategic field, which embodies an opportunity for the creation of new and valuable financial solutions, products and services for customers, and was the first to introduce, in 2018, an API (Application Programming Interface) platform. Alongside abiding by the regulatory requirements in this field, the Bank is acting to expand the activity and services offered within the framework of the platform. Within the framework of the Bank's actions to expand its open banking services, the Bank promotes cooperation based on the API infrastructure with a number of fintech companies, such as: iCount offers account management services to small businesses, RiseUp Moments Ltd. offers a cash flow management

service to private customers and assists customers' economic growth through effectively managing monthly cash flows, Family Biz Holdings Ltd. which offers customers a tool for centralizing financial data and smart alerts, and Amir CashFlow Ltd. offers cash flow management services to small and medium businesses and assists them through data-based smart management. In addition to these, the company EcoBill Ltd. has joined, which allow to manage all household bills (municipal property taxes, electricity, water, gas, communications, etc.) in one place, and to track them, identify anomalies and easily pay them directly from the customer's account.
All these are presented by means of the partners avenue in the application for private individuals, as well as the partners avenue in the business application and business website.
Strategic cooperation for the establishment of a fintech company granting digital credit. For details see "Management's handling of current material issues" above.

Direct channels

In 2023, the Bank continued the journey intended to grant its customers a leading digital experience by means of enriching a variety of operations that the customers may perform in a simple and independent fashion, as well as making additional information accessible so as to allow them to manage their account in a better way.
During 2023, innovations and updates were made in the following areas:

Current accounts and foreign currency

Foreign currency credit facility. Customers who have set up a credit facility on their foreign currency account will be able to see on the website the size of the facility and the balance utilized.
Expanding support for the printout of earlier statements of account. The possibility of printing out earlier statements of account has been expanded from the last three years up to the last six years.
Similar entries. Expanding the search power for an entry according to the name and time period, in the Hebrew and English private and business websites, allowing the customer to watch all entries similar to the entry he is looking for in the current account, transfers and foreign currency sections.
Transfers to the crypto exchange. The Bank allows customers to transfer funds in Israeli and in foreign currencies to accounts engaged in the virtual currencies field. Each customer trying to transfer funds to an account identified as active in the virtual currencies field, would be presented with a notice informing him of the policy of the Bank regarding everything related to transfers to such beneficiaries.
Effected transfers and standing orders – extending the search range to one year. The search range for queries regarding prior transfers has been extended to one year, instead of six months previously.
Inter-account transfer of an amount larger than that permitted for a minors' account. Customers with a minors' Account (14-16) attempting to transfer more than NIS 400 will be notified that they have exceeded the daily limit on the account.
Sorting of beneficiaries according to the most recent transfer. The "Transfer between accounts" screen includes now the option of quicker identification of the correct beneficiary by a new sorting according to date of transfer.
Request for the transfer of foreign currency. A new and more convenient link has been added for sending a request to the banker for the transfer of foreign currency in an amount exceeding the permitted limit on the digital.
Addition of a beneficiary identification in the "Effected transfers" query. In the case of Real Time Gross Settlements (RTGS) transfers, the beneficiary identification entered by the customer would be reflected also in the "Effected transfers", including in the printout and in the export to an Excel file.
Addition of a "Purpose of Transfer" field. Following repeated requests from customers, a field has been added in the app that describes the purpose of a transfer carried out at the Bank (credit or debit), within the details of the movement itself.

Credit

Improving the presentation of commission in the process of obtaining a loan. The final screen has been redesigned so that it is now possible to see clearly on the Private Application the commission to be charged in connection with the loan (relevant only to loans in amounts exceeding NIS 100,000).
Skipping repayments of a loan – also without an approved addition. Customers not having an approved addition as well as business customers would now be able to skip repayment of the loan using the Private Application, with no need to visit the Bank branch.
Details of guarantees. Added to the Application is the possibility of watching the details of existing guarantees in a customer's account by means of the information menu.
Addition of a request to the credit database in the loan application process. Customers requesting a larger loan will be able to authorize the bank to refer on their behalf to the credit database. This means that the report will allow the Bank to increase the amounts of the approved supplement even to customers who did not previously have an approved supplement; based on the report produced, the Bank will decide whether to approve the requested amount. In any case, customers who want to take out a loan greater than their facility ceiling will be able to contact a banker.

Digital

A digital form for applying for reliefs and benefits due to the war. In accordance with the Bank of Israel's outline, the populations affected by the situation are being granted reliefs and benefits. In order to facilitate the process, a digital form has been set up on the website, which details who is entitled to the reliefs and benefits, and which can be used to submit an application. The form can also be accessed from the app.
Attachment of files to business CRM. An option for the delivery of documents has been added also to customers whose Bank branch is connected to a business CRM. These customers would be able to send requests in matters of certificates and documents, vehicle insurance policies, investment consultation and the removal of foreclosure.
Issue of confirmation reference upon establishment of an authorization to charge an account. A possibility has been added for the issue of a confirmation reference, similarly to that issued at the Branch office, once an authority to charge an account had been established. The confirmation reference is issued in a PDF format, including a digital signature.
An option to export information and to save references to an Excel file also on the customized website. An option has been added to save various information queries and references in Excel format at the end of a transaction through the customized website.
Opening of new accounts – supporting new identity cards issued as from the year 2022. Support has been added regarding the scanning of new identity cards in a new format, issued by the Ministry of Interior as from 2022, which prevents many customers from opening an account using the application.

Checks

Removal of a post-dated check. An option has been added for the withdrawal of a check deposited as a post-dated check, and its removal from the digital post-dates checks stockpile (withdrawal applies only to checks deposited for collection and may be effected up to three days prior to their due date).
Addition to the "Operations menu" of a change in the due date of a post-dated check. An option has been added of entering the process also by means of the "Operations menu" on the website and also to add to the menu of checks on the Application.
Changing the due date of postdated checks. Customers who wish to change the date of a postdated check to a different due date (applies only to postdated checks for collection and not to checks held as security or discounted checks) may now do so through the digital. Limited to three changes in respect of each postdated check.
Raising the limit for the deposit of checks. The daily and monthly limits for depositing checks have been raised. Private customers: the threshold amount for depositing a single check has been increased from NIS 50 thousand to NIS 100 thousand, the daily limit for depositing checks has been raised from NIS 100 thousand to NIS 150 thousand, and the monthly limit from NIS 150 thousand to NIS 250 thousand. Business customers: the threshold amount for

depositing a single check has been increased from NIS 50 thousand to NIS 100 thousand, the daily limit for depositing checks has been raised from NIS 150 thousand to NIS 350 thousand, and the monthly limit from NIS 300 thousand to NIS 500 thousand.
Check menu. A new field on the website – a check menu showing all information and operations relating to this matter.
Presentation of a post-dated check photo in the "Latest entries" screen. Presentation of the photo of a post-dated check upon arrival of its due date has been added.
Ordering home delivery of new checkbooks – blocking of customers with a wrong address. Since the addition of the option of ordering home delivery by mail of checkbooks through the website or the Private Application, a problem arose in cases where the mail address on the Bank's records was incorrect. To give these customers an answer as well, they may collect the checkbooks from the Bank branch.
Customers not having an up-to-date "strong telephone number" on record with the Bank would not be able to deposit checks by means of the Private Application until updating the telephone number. Following new data protection guidelines, customers would not be able to freely submit a telephone number, but only select a phone number that is already linked to their identity card ("strong number"). Without a strong number, customers would not be able to continue the process of depositing a check.

Customer experience

Floating button in respect of complaints. A new floating button for submission of complaints was added to the Discount Application, immediately transferring the customer to correspondence with a banker. Customers pushing the button outside business hours would receive a "pop-up" notice showing business hours.
Transacting business at Bank extensions – appointments with a banker. The possibility to set an appointment with a banker by means of the Private Application also at the extension and not only at the parent branch was added.
Pension consulting – signing a power of attorney to the Bank. A possibility has been added of obtaining remotely a signature on a power of attorney for customers receiving pension consultation, without them having to visit the Bank. Customers receiving pension consultation, whose power of attorney is about to expire in the coming year, will be presented with a digital notice (on the website and on the application for private individuals) inviting them to renew their signature on the power of attorney in order to continue receiving the pension services. Once the message is approved, a text message will be sent to them inviting them to sign the forms digitally.
Follow Up of approaches to the Bank. This service (Stage "A") was introduced at the end of 2022, and included presentation of all approaches of the customer to the Bank. Stage "B" of the project includes the following contents:
- The approach had been concluded but the customer is not satisfied with the treatment? A button has been added allowing renewal of the approach within 24 hours of closure. The approach is no longer relevant? A button has been added allowing self closure of the approach (so long as a banker has not started dealing with it).
- The types of SMS notices sent to customers upon changes in the status of an approach have been expanded.
- Transparency regarding dates for treatment of an approach and expected delays: Already upon entering an approach, the customer is presented with an SLA for the end-to-end treatment of his approach (until now the expected time for a primary response only was presented); was there a delay in the expected SLA? An indication would be presented to the customer and further notices would be delivered.
- Expansion of approach channels available on the service: approaches received by telephone or personally at the Branch, would also be reflected through the service.

Expansion of the population allowed using the digital service:
- A minor up to the age of 14, customer in a joint account with a deceased customer (with no "long life" proviso), and protected customer – may join the digital for information purposes only.
- Customer in a joint account with a deceased customer (with a "long life" proviso), trust account (with a known beneficiary).
- Guardian in a protected account – may act using the digital and effect transfers according to a designated schedule of limits (excluding loans and securities).
- Minors of age 14-16 may conduct transactions and transfers in amounts of up to NIS 400 per day (excluding loans and securities).

Deposits

Deposit of funds in a foreign currency deposit – through correspondence with a banker. Customers who wish to deposit funds in a foreign currency deposit would be immediately referred to correspondence with a banker, who would offer them the deposit most suitable to their requirements, and would carry out the deposit of the funds through the Application.
Increase of deposit withdrawals. Customers will be able to withdraw up to NIS 2,000,000 at the exit dates and up to NIS 800,000 at a time other than an exit date (breaking a deposit ahead of time is still limited to NIS 800,000 due to the breaking cost). The withdrawal amount at the exit date has until now been restricted to up to only NIS 800,000.
Cancellation of a deposit standing order update. An option has been added to allow cancellation of automatic deposits by standing order to a deposit account, without the need for a banker (the cancellation may affect the interest rate that the deposit bears).

Digital for businesses

On-call loans. An option has been added to grant on-call loans on the business website to customers for whom a digital facility has been set up; such loans can also be repaid digitally.
RTGS transfers. An option has been added for a banker to approve the account payment made via the RTGS transfer system. Business customers will be able to make payments to institutions in an unlimited amount and, if the amount is higher than the permitted amount or exceeds the customer's facility, the transaction will be sent for a banker's approval.
Checking an ID card for money laundering. In the salary processes and the transfer to a number of beneficiaries in businesses, a situation could arise where the beneficiary is blocked because he is suspected of money laundering or financing terrorism. In such a case, if the beneficiary's ID card has been "whitewashed", customers will be able to enter the ID number instead and the operation will be approved.
Foreign trade regulation – transfers for purposes with capital relief for income tax. An option has been added to select purposes that were previously not feasible on digital channels.
GPI foreign trade. An option has been added to keep track of the payments made by customers through to their receipt by the beneficiaries.
Foreign trade receipts confirmation by SMS. Foreign trade customers who subscribe to the SMS service and confirm receipts from abroad will be able to go directly to the receipt confirmation, complete information and confirm the payment's receipt. Joining the service will be via the "Operational SMS" screen in the "Settings and Services" menu.
Foreign trade on the English website. New services have been added: balance of tax confirmations, expected repayments, open transactions, and management of transfer clusters.
New indicator in RTGS transfers. In the status of an RTGS transfer sent for a banker's approval, customers will be able to track the transaction's approval or its rejection through the new indicator.
Viewing the beneficiaries' details. An option has been added to view the details of the beneficiaries in a transfer to several beneficiaries or in the payment of salaries, also from within the current account.
Lengthening the time in the transaction status to up to a year back. The time span to view the "Transaction Status", in transactions that have been completed has been lengthened to up to a year back.
Expanding the export data option. An option has been added to export data to Excel files in dozens of transactions on the customized website (depending on the references available on the website).
Securities – Requesting receipt of an account summary report. Customers can ask the banker to extract a securities summary report for them, and the report will be sent to them within a few days.
Signing on transactions of several companies. An option has been added to the business website for signing in a single operation, on transactions of several companies.
Payment of invoices. An option for changing a company has been added to the procedure of invoice payment through the website.
Confirmation of reservation on the foreign trade website. An option has been added to the foreign trade section of the website for the confirmation of a reservation applying to an import documentary credit.

Bank authorized payment of invoices – customers are not stuck on the digital. In cases where it is not possible to effect payment of an invoice through the digital (due to insufficient funds or exceeding an amount limitation), the customer will be prompted with the option to transfer the confirmation of the operation to the banker, with no amount limit.

A website in English for business customers – opening a gap vis-a-vis competitors. A possibility has been added whereby all banking transactions (except for foreign currency transactions) effected by business customers, may now be effected on the website in English: a single transfer approved by a banker – permanent beneficiaries; a single transfer approved by a banker – first party; transfers in accordance with authorization; establishing authorization to charge an account; cancellation of authorization to charge an account; temporary discontinuation of authorization to charge an account, reinstatement of authorization to charge an account; withdrawal of cash without a charge card – signing on a transaction established on the Application; recurring transfers and submission of an application for a bank guarantee.

Determination of a default account – being attentive to customer needs. In examining the practice of customers on the website it was found that approx. 20% of customers change the requested account immediately upon entering the website. Accordingly, a separate screen has been structured wherein it is possible to define the default account, including a designated entry on the menu.

Connecting the business website to the work order in the business CRM. Reflecting the work order of the banker - transactions requiring authorization of a banker would now be transferred for treatment by the work order of the business CRM.

Mortgage

Mortgage. An option has been added to easily download all documents in the discharge form, by approval party, and to send by email, for example, to the lawyer handling the deal.

Transactions on an existing mortgage. The option to execute the following transactions on the website and on the application for private individuals has been added: updating a life and property insurance policy by sending a digital request, requesting a form for the partial discharge of a pledge for the payment of damages, requesting to reduce a pledge clause, requesting to change a charge date, and requesting to update a mortgage account charge authorization.

Capital market

Added tools for the management of an investment portfolio – presentation on the Private Application of the value and percentage of investment of the total securities in Israel and abroad. Customers managing a diversified portfolio (which includes Israeli and foreign securities) may observe the total monetary value and percentage of investment in relation to the total value of the portfolio, divided to Israeli and foreign securities.

Follow up of securities – Rearranging the menu following an examination of customer conduct. It transpired that the item "securities follow up" in the menu is of great demand. Accordingly, it has been moved to the top of the menu in order to facilitate the daily navigation in the world of the capital markets.

Yields on the securities portfolio. Updated calculation of the yield model for holders of a securities portfolio according to the TWR model, as required by Proper Conduct of Banking Business Directive No. 460. An option has also been added to view a summary of half-year fees on the "Portfolio Yield" page.

Smart Invest. The Smart Invest service is expanding and will allow delivering of investment recommendations to customers attached to this service, including also foreign securities.

Smart Invest digital examination of securities portfolio. Once a year, a portfolio analysis is carried out for Smart Invest customers by Bank consultants. The final report is sent to the mobile phone of the customer, who is able to view the analysis of his investment portfolio at any time under the summary of consultancy calls. Until now, the consultants would conduct an analysis in a phone conversation with the customer. The service is now accessible and available online through the app.

Issue of year-end withholding tax confirmations – investments and securities for 2022 (Form 867). A possibility has been added for obtaining via the website or the Application, the annual withholding tax confirmation (Form867) and save it to an accessible PDF file.

Credit Cards

Increasing the amount for charging a 2GO card. The amount for charging through the Private Application of 2GO cards has been increased. In accounts of young persons over age of 16 or with respect to a third party card (such as a card ordered under the account of the parent though the actual user thereof is a son or daughter) – it is possible to charge the card with amounts of up to NIS 1,000, instead of NIS 450, previously.
Credit cards – expanding the information regarding transactions originating in the payments Application. As part of the requirements of Proper Conduct of Banking Business Directive No. 427, the Bank is preparing for the presentation of detailed information on credit card transactions originating in payment applications (BIT, PayBox). The Directive defines the contents of the information required to be presented at the current account level of the transaction and at the credit card level of the transaction (name of beneficiary, reason for the transfer, payment application, etc.). These fields would be presented at the transaction level on the website and on the Application under upcoming billing or prior billing transactions and under online transactions.

Open banking

Open banking – Extending the service to small corporations. Small corporations with only a single signatory may also approve the transfer of information and effect payments using the open banking infrastructure.
Open banking continues to expand. A new cooperation with EcoBill Company, which joins the "partners avenue" on the main menu in the Application. EcoBill is an Israeli fintech company offering a service for the management of household bills (city tax, electricity, water, gas, communication, etc.). The combination of EcoBill with Discount would allow Bank customers to receive their household bills in one place, to monitor them, identify deviation, receive alerts and pay the bills easily and in a secured manner by way of a bank transfer by means of the system (to be introduced gradually, opened in the first stage in a number of branches).

Main developments in Israel and around the world in 2023

Developments in Global Economy

General. The year 2023 was marked by expansion in global economic activity, with very high differentiation between states. Despite concerns regarding the entry of the US economy into recession, the US economy demonstrated in 2023 growth of 2.5%. At the same time, the Eurozone presented growth of 0.5%. Inflation in the world has moderated but remained higher than central bank targets. Thus, during 2023, and until the fourth quarter, central banks were raising interest rates. The Fed raised the interest rate to 5.25%-5.5%, while the ECB raised it to 4%.
Financial markets. The last two months of the year were marked by steep rises in the US market, following reductions in the preceding three months, and in continuation of the price raises that marked the first half of the year. At the same time, the last quarter of the year saw inflation moderate, with the US Fed sending reassuring messages to the market regarding the need for additional interest rate increases. As a result, the equities market reacted with steep rises.

Changes in the leading equities indices recorded during the years 2022 and 2023

Index	2023	2022
500 S&P	24.2%	(19.4%)
DAX	20.3%	(13.1%)
MSCI Emerging Markets	7.0%	(22.4%)

Trade in US bonds was marked by volatility throughout the year. The trend of rising yields, which prevailed during the second and third quarters, gained momentum at the beginning of the fourth quarter, with the support of the rise in real yields, however, it reversed sharply in the last two months of the year, due to raised expectations regarding the end of the interest rate hikes process. At the end of the year, the yield on 10-year bonds was being traded at a level similar to that at the end of 2022. This, being in addition to a certain decrease in inflation expectations. Germany's equivalent bond yield fell by approx. 50 basis points during the year.

Yields on government bonds

10Y Government Bond Yields	June 30, 2022	December 31, 2021
U.S.A.	3.9%	3.9%
Germany	2.02%	2.56%

In the fourth quarter of the year, the dollar basket ("dollar index") lost ground and weakened by 4.5%, against the background of a narrowing in the interest rate differential; this following it's strengthening in the third quarter. In total for 2023, the dollar basket weakened by 2%.

Changes in the U.S. dollar against selected currencies

Exchange rate	2023	2022
EUR	3.1%	(5.9%)
JPY	(7.0%)	(12.2%)
GBP	5.2%	(10.6%)

Following the rise in prices of commodities and of oil in the third quarter, a renewed reduction in prices occurred during the fourth quarter on the background of concerns regarding slowdown and excess supply on the energy market. On the other hand, the price of gold increased in view of the reduction in real yields that marked the fourth quarter. At the end of the year, gold was traded at a price higher by 13%, compared to the beginning of the year.

Changes in selected commodities indexes

	2023	2022
The commodities index - GSCI	(10.6%)	8.7%
The oil price (BRENT)	(10.3%)	9.7%
The oil price (WTI)	(10.7%)	4.2%
Gold	13.1%	0.4%

Main Developments in the Israeli Economy

General

Exceptional regression took place in the GDP during the fourth quarter of 2023, at an annualized rate of 19.4%, being affected by the War, and in continuation of a certain slowdown already observed in the third quarter of the year. In total for the year, the GDP grew by 2%, as compared to growth of 6.5% in 2022. Private consumption declined sharply in the last quarter, at an annualized rate of approx. 30%, and investments in fixed assets (excluding ships and aircrafts) shrank at a rate of approx. 70%, and in total for the year declined by 3%. A similar trend was also recorded in exports which shrank at an annualized rate of approx. 30% (excluding diamonds and start-up companies) in the quarter and a standstill in total for the year. On the other hand, and defense consumption in particular, recorded exceptional expansion historically during the fourth quarter, of an annualized rate of approx. 100% (excluding defense imports), deriving from a very sharp growth of approx. 600% in defense expenditure and about 50% in the civilian expenditure. In total for the year, the defense expenditure grew by approx. 24% compared to a decline of 6% in 2022.

Until the fourth quarter of the year, the labor market had demonstrated strength, with the wide unemployment rate (a rate including unemployed and absentees due to economic reasons) continuing to decline reaching 3.6% in September. During the fourth quarter of the year, with the outbreak of the "Iron Swords" War, unemployment increased sharply, with a decline in the rate of participation. However, quick recovery took place later on, and at the end of the year the unemployment rate stood at 6.1%. Concurrently, reduction in the rate of available positions was recorded in this period, a process that had begun at the beginning of the year and intensified in the last quarter.

Main developments in economic sectors

Business product shrank in the fourth quarter of 2023 at an annual rate of 32%, and in total for the year it expanded by 1.2%, compared to 7.7% in 2022. Rapid growth was recorded in the information and communications sector, continuing the trend seen in 2022, and even accelerated somewhat. This sector actually contributed a significant portion of the growth in 2023. On the other hand, the construction, transportation services and agriculture sectors recorded a regression.

Developments in the activity of the Israeli economy with overseas markets

Direct investments by foreign residents in Israel (through the banks) fell sharply during 2023. A sharp decline of approx. 30% was recorded in the fourth quarter of the year, continuing the trend observed from the beginning of the year and, in total for 2023, direct investments had reduced by 37% compared to 2022. At the same time, foreign residents recorded net sales of equities and short-term loans (MAKAMs) in large scopes, compared to net purchases in 2022. On the other hand, foreign residents acquired government bonds, compared to sales in 2022. As a result, the foreign residents' overall financial investments in marketable securities in Israel in 2023 recorded sales in a large scale. On the other hand, Israeli residents increased their investments in marketable securities abroad, while in 2022 they realized securities.

Changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January-December 2023	January-December 2023
	US$ million	
Total direct investments (through banks)	11,895	18,761
Total financial investments	(7,703)	4,895
Of which: Government bonds and MAKAM	(6,354)	4,081
Shares	(1,939)	708
Investments abroad by Israeli residents	**January-December 2023**	**January-December 2023**
	US$ million	
Total direct investments (through banks)	1,164	(36)
Total financial investments	4,818	(1,709)

Developments in Foreign Exchange Rates and Inflation Rates

Similarly to the global trend, inflation in Israel also slowed down in 2023, and in particular in the second half of the year, reaching at the end of the year the upper limit of the targeted rate. The annual inflation rate amounted to 3%, compared to 5.3% in 2022. At the end of December, CPI contracts for one year took into account an inflation rate of 2.35%.

Concurrently, during 2023, the shekel weakened against the US dollar by approx. 3%, with very high fluctuations during the year, and by approx. 1.5% against the currencies basket. The fluctuations resulted from events related to the judicial reform, which had an effect on the weakening of the shekel in the first nine months of the year and which intensified with the outbreak of the War in the last quarter. Notwithstanding the above, the weakening trend of the shekel was mitigated significantly following the announcement by the Bank of Israel that it will sell dollars out of its foreign currency reserves, and thereafter, to a great extent, due to the effect of price raises on the NASDAQ in the last two months of the year.

Fiscal and Monetary policy

Fiscal policy. The deficit in the State's budget for 2023 amounted to 4.2% of GDP, compared to a surplus of 0.6% of GDP in 2022. Government expenditure increased by 12.5% in 2023, of which, approx. 40% resulting from the War financing expenses. Concurrently, the State's tax revenues were reduced by approx. 8%, specifically, a decrease of approx. 9% in direct taxes. The decline in revenues began during the year, even prior to the War, mainly due to the decline in income from real estate and corporation taxes.

Monetary policy. The Bank of Israel kept the interest rate unchanged during the second half of 2023, after raising it during the first half of the year from 3.25% to 4.75%. The embedded interest rate for one year amounted at the end of December to approx. 3.2%. Within the framework of the monetary restraint policy, the Bank of Israel increased sharply, since the end of 2022, the issues of short-term loans (MAKAM), though during the last quarter it turned to a net negative fund raising.

Changes in the monetary base. During 2023, the M1 money supply (cash in the hands of the public and shekel current account deposits) recorded a decrease at a rate of approx. 11%, as a result of a decrease of approx. 17% through September, due to the rise in interest rates; this was offset by an increase of approx. 6% during the last quarter, against the background of the war and an inflow of liquidity. The changes in the M1 money supply result from changes in the same direction in current account balances, at rates of approx. 21% and approx. -8%, respectively. A similar trend is also visible in the development of the monetary base – a contraction through September and then expansion, resulting in stability for the year as a whole, with a low volume of inflow from the government, compared to 2022, and absorption by the Bank of Israel.

Sources for the change in the monetary base

	January-December 2023	January-December 2022
	In NIS billion	
Operations on the Capital Market	(83.8)	94.5
The Shekel deposits tender	118.0	71.0
Monetary loan	(16.7)	-
Foreign currency conversion	(34.3)	1.1
Government activity	6.9	24.2

The Capital Market

In contrast to 2022, the local capital market was marked by slight price increases, though still significantly lower as compared to the global trend. This, on the background of the progress made regarding the judicial reform and thereafter, on the background of the outbreak of the War in the fourth quarter. Thus, during 2023, the TA 125 Index rose by approx. 4%, compared to an increase of approx. 24% rise in the S&P 500 Index. The fourth quarter of the year was marked with sharp fluctuations on the local market, affected by the War, when during October the TA 125 Index had dropped by approx. 12%, and in the following months until the end of the year, it returned to its level prior to the War. In total for the year, the Index rose, as stated, at a moderate rate. On the other hand, the Banks Index rose by a two digit rate and also the TA Blue-Tech Index rose sharply.

Changes in selected share indices in the years 2022 and 2023

Index	2023	2022
TA 35	3.8%	(9.2%)
TA 125	4.1%	(11.8%)
TA banks	12.2%	(3.0%)
TA Global-Blutech	8.9%	(36.2%)
Real-estate 15	6.0%	(27.0%)

The last quarter of 2023 opened with a negative yields gap of -30 basis points between Israeli government bonds for ten years and the US bonds. However, as a result of the war, yields on Israeli bonds rose during the quarter, in contrast to the decline in yields on US bonds, and so, the year ended with yields of approx. 4.2% on the Israeli bonds, reflecting a positive yields gap of 30 basis points as against the US bonds.

Changes recorded in selected bond indices during 2022 and 2023

Index	2023	2022
General bonds	3.8%	(7.7%)
General Government bonds	0.7%	(8.8%)
Shekel Government bonds	1.4%	(8.6%)
Linked Government bonds	(0.4%)	(9.1%)
General Corporate bonds	6.3%	(5.7%)
Linked Corporate bonds	6.3%	(6.6%)
Shekel Tel-Bond	5.3%	(7.1%)

During 2023, the corporate bond market recorded price increases of 5.3% for the shekel Tel-Bond Index and for the Tel Bond 60 Index. Notwithstanding this, while the shekel Tel Bond Index recorded a rise of 30 basis points in the gap against government bonds, the Tel Bonds 60 Index recorded a decline in the gap of 37 base points. The volume of issues by Israeli corporations amounted to approx. NIS 78 billion, as compared to NIS 83 billion in 2022, of which, NIS 48 billion excluding banks, insurance and finance corporations, similarly to that of 2022.

The asset portfolio held by the public

The value of the financial assets in the hands of the public portfolio rose during the period January-November 2023[16] by approx. 4%, and amounted to NIS 5.1 trillion, with increases in most linked segments. Much of this increase was due to a sharp growth in overseas equities (approx. 16%). In addition, rapid growth was recorded in the foreign-currency-linked component (approx. 9%), and moderate growth in the non-linked component (approx. 3%) and the linked component (approx. 2%). On the other hand, the Israeli equites component recorded a decline of approx. 3%.

Distribution of the asset portfolio held by the public

	November 30, 2023	December 31, 2022
Shares	24.0%	23.7%
Non-linked assets	38.8%	39.2%
CPI linked assets	24.9%	25.3%
Foreign currency linked assets	12.4%	11.8%

16 The latest data available at the time of the report going to print.

Principal Economic Developments in January-March 2024[17]

US labor market data for January surprised upwards and pointed to a continued rapid increase in the number of new jobs, as well as to a further increase in wages. The unemployment rate remained stable at 3.7%. Inflation slowed at a more moderate pace than expected and fell to 3.1%. Such data support high interest rates for a protracted period of time.

In Israel, the Integrated Index for the State-of-the-Economy for January indicates a continued recovery, following the downturn that characterized the first months of the war. The same is true of the broad unemployment rate, which has fallen to 4.8%, compared to 6.1% in December.

Israel's cumulative budget deficit for the 12 months ended January 2024 was NIS 89 billion, which is 4.8% of GDP, compared to 4.2% at the end of 2023.

Inflation in January remained unchanged, while the annual rate slowed from 3% to 2.6%, with core inflation slowing down to 2.4%.

At the beginning of the year, the Bank of Israel lowered the interest rate by 0.25% to 4.5%, and at the end of February it remained unchanged. The Bank of Israel noted the high degree of uncertainty against the background of the war, together with the need to see inflation established within the target range; it has therefore chosen to pursue a measured and cautious course in the process of lowering the interest rate. In addition, the Bank of Israel called on the government to complete the process of passing the budget in the Knesset.

During the aforesaid period, the Fed's interest rate remained unchanged at 5.25%-5.5%, as did the Eurozone's interest rate, which remained at 4%.

During February, and for the first time since rating agencies began publishing the State of Israel's credit rating, the Moody's agency announced a downgrade of the rating from A1 to A2 and a downgrade of the outlook from stable to negative. Moody's decision was based on a combination of several trends in the Israeli economy, the effect of the war in Gaza and fear of a war in the north. In the report published by Moody's, the agency lists a large number of reasons that led to the rating downgrade decision, with the main ones being to the higher geopolitical risk even after the end of the war, deterioration in the fiscal position, and also fear of political turmoil once the war cabinet dissolves.

Yields on 10-year Israeli government bonds rose to 4.33%, with a steeper rise in yields being recorded in US bonds, resulting in the yield margin narrowing from 29 basis points at the end of 2023 to 12 basis points. During the period, real yields remained almost unchanged, while inflation expectations have risen over all the ranges. In the contracts market, one-year CPI contracts were being traded at approx. 2.64% at the end of the period, compared to 2.35% at the end of December. The exchange rate of the shekel against the dollar has strengthened by 1.4% since the beginning of the year, with strong trading volatility, and by approx. 3.0% against the currencies basket. During this period, the TA-125 index rose by approx. 6%, compared with an increase of approx. 8% in the S&P 500 and NASDAQ indices.

Legislation and Supervision

General

The Bank operates within the framework of Laws, Regulations and Directives, certain of which are exclusive for the banking industry, and others, though even not exclusive as above, do have an effect on certain sections of its operations. This framework is based mostly on the Israeli law and its various layers, however, the Bank's conduct in certain areas is also affected by the provisions of foreign law, as long as these are effective over its activity.

17 All the data in this chapter refer to the period from January 1, 2024 to March 5, 2024.

The Banking Ordinance, various banking laws and the Proper Conduct of Banking Business directives issued from time to time by the Supervisor of Banks, constitute the central legal basis for the operations of the Bank Group. These, among other things, define the limits of the Bank's operations, the permitted operations of subsidiaries and companies related to the bank and the terms for owning and controlling them, the relations between the Bank and its customers, the use made of the Bank's assets and the mode of reporting to the Supervisor of Banks and the public as to the Bank's said operations.
Alongside these, the Bank is subject to a wide legislation that regulates its capital market operations both on behalf of customers and on its own behalf (for example: investment consulting and customer portfolio management, pension consultation, mutual investments funds, the overall activities of provident funds and restrictions on insurance business activity).
Additional legislation as regards special subjects imposes on banks specific duties and rules. Thus for instance, the legislation relating to the prohibition of money laundering and the prohibition of financing of terror activities, the credit data law, legislating relating to housing loans, guarantees, etc. The Bank is subject also to Laws imposing duties and rules involving aspect that are not singular to banks, such as the Privacy Protection Law, the Economic Competition Law, etc.
In addition to these, a supplementary legislation exists, which because of its connection to the Bank's operations, has a considerable implication on the way the Bank is being managed. In this respect it should be mentioned, among other things, the debt execution laws, insolvency laws, laws relating to specific economic sectors (local authorities, mortgagees, the agricultural sector) and various tax laws.
The Bank's and its subsidiaries' operations are subject to supervision and audit by the Supervisor of Banks as well as by other supervisory authorities regarding specific fields of operations, such as the Securities Authority, the Capital Market, Insurance and Savings Authority, the Competition Authority and the Privacy Protection Authority. These parties are authorized to conduct audits at the Bank and the subsidiaries or to require information from the Bank, relating to various fields of operation.
The Bank and its subsidiaries are taking steps towards complying with the duties imposed upon them under the said provisions of the law.
A monetary sanction by most of the laws applying to the Bank's operations exists, for violations of the provisions of the laws and secondary legislation (including guidelines and circulars) issued or to be issued under them. Some of the laws include penal clauses.
Following is a summary of legislation changes and relevant legislation initiatives during the reported period, which have a significant effect or might have a significant effect on the Bank's or the Group's operations.

Legislation and Regulation arising from the "Iron Swords" War

Following the events of October 7, 2023 and the outbreak of the "Iron Swords" War, various regulators have issued a series of reliefs and adjustments aimed at making things easier for the public and the business sector and enabling business continuity for the economy in general and for the banks in particular.

Points of emphasis and reliefs of the Banking Supervision Department arising from the "Iron Swords" War

On October 12, 2023, the Banking Supervision Department published Points of emphasis for the Israeli banking system that relate to the public's interfaces with the banking corporations and credit card companies. The Supervisor of Banks noted the vital role of the banks and credit card companies in standing as a solid foundation alongside their customers, while employing increased sensitivity and taking a proactive approach in finding solutions and providing as much relief as possible to customers in distress; maintaining continuity in the provision of services; and managing the range of operational and financial risks unique to this period. For this purpose, the banking system must verify that its activity takes into account, inter alia, the following aspects: maintaining the availability and continuity of services, publishing up-to-date information about the available service channels, acting with extra-special sensitivity with regard to inquiries relating to accounts of the missing or killed, setting procedures for identifying and verifying relatives, establishing work processes for providing a quick response and action with sensitivity with regard to fears of misuse of payment methods. Initiatives must continue to be promoted that aim to ease the burden of meeting customers' payments and liabilities, with an emphasis on residents of the emergency areas, IDF soldiers, those called-up and their families and small businesses affected by the situation. Positive consideration should be given to providing relief in appropriate cases, including: deferring loan payments with full disclosure of the implications; freezing collection proceedings; avoiding the collection of fees and commissions according to the circumstances; and approving the breaking of deposits and reducing associated costs. It was also noted that banks should be prepared for an increase in hacking attempts and cyber-attacks aimed at the banking system and should, generally, examine with increased surveillance all risks and including the adaptation of policy and models to stress tests.

Comprehensive outline for helping customers deal with the consequences of the "Iron Swords" War. For details, see above "Support of customers during the "Iron Swords" War period".

Regulatory Points of emphasis regarding debt handling and reporting to the public. On October 18, 2023, the Banking Supervision Department published this document, pursuant to which the Banking Supervision Department is encouraging banking corporations to take action to temporarily allow borrowers affected by the war to have flexibility in the repayment of loans. The debt arrears situation is to be determined by the contractual terms of the debt – a debt that did not have payment arrears on the date the war broke out, will not be reported as a debt in arrears; in the case of debts that had payments arrears on the date the war broke out, the arrears situation must be adjusted to the situation as it was at the time the war broke out. Within the framework of reporting to the public, it is necessary to disclose the debts of borrowers affected by the war for whom new repayment arrangements have been made.

Checks Without Cover Regulations (Restrictions on the Application of the Law), 5784-2023. On October 26, 2023, the Regulations were issued, the essence of which is setting restrictions on the Checks Without Cover Law, divided by eligible population groups, so that dishonored checks or checks which are expected to be dishonored on ground of "lack of sufficient funds" during the course of the "Iron Swords" War, in the periods defined in the Regulations, shall be deducted from the number of checks counted for the purpose of imposing a limit on the account. This, in order to avoid limiting bank accounts at this time. The application of the regulations has been extended due to the continuation of the War.

Proper Conduct of Banking Business Directive 251 – Adjustments to the Proper Conduct of Banking Business Directives for the Purpose of Dealing with the "Iron Swords" War. On October 22, 2023, the Banking Supervision Department published the Directive, which includes urgent regulatory adjustments that are required due to the situation. The Directive covers, among other things, reliefs in the handling of excesses on current account facilities in amounts not exceeding NIS 5,000, the possibility of sending urgent and significant impact notices through banking communication channels to customers who do not subscribe to those services, facilitating the identification and verification procedures required in providing banking services via communications channels, increasing the scope of permissible activity on clearing accounts opened online and postponing the effective date of several Proper Conduct of Banking Business directives that were due to shortly go into effect. In addition, the permitted volume of transactions on the payment applications (such as PayBox) has been increased until the end of the year, for the benefit of raising funds in aid of families of those injured or missing, or for the support of operations of the security, rescue and assistance forces. On October 31, 2023, the Banking Supervision Department published an amendment to the directive, within the framework of which, inter alia, temporary reliefs were prescribed regarding the rate of financing in loans intended for the purchase of land. An additional Amendment to the Directive was published on November 20, 2023, which contains additional relief measures in relation to directives of the Supervisor of Banks, in view of the continuation of the fighting. The relief measures relate, inter alia, to the participation of Directors in Board meetings by way of advanced communication means, extension of the periods for approval of minutes and the distribution of a draft document detailing the decisions made at the meeting, the possibility of increasing the recharged amount for certain rechargeable credit cards, and this, inter alia, on condition that the card is being issued to associations engaged in assistance on the background of the War, alleviation regarding requirements for the signing by borrowers of documents regarding housing loans. Additional amendments to the Directive were published on December 28, 2023 and on February 4, 2024, which relate, inter alia, to the extension of various periods, to relief in the matter of an initiated approach to the customer with respect to credit, and to the removal of limits regarding loans for the purpose of building an apartment safe room and for improving protection in residential apartments by authorized companies.

In addition, the Banking Supervision Department has published guidelines regarding reliefs for identifying customers who do not have official documentation, reliefs for operating branches in the conflict zone, and permission to move branches and operate mobile branches. An updated version of the Provisional Instruction was published on February 27, 2024.

The Banking Supervision Department's letter on capital planning and profit distribution policy. See "Dividends Distribution".

Guidelines and various reliefs

The Limitation Law (Amendment No. 8 – the Iron Swords War), 5784-2023. The Amendment, was published on the Official Gazette on January 25, 2024, according to which, in certain circumstances, upon computing the limitation period of a claim, the period from October 7, 2023 to April 6, 2024 shall not be taken into account, and in the event that the period of limitation of whatever claim ended in the period from October 7, 2023 to immediately prior to the effective date of the Amendment – then the period of limitation will be considered as if it had not ended, and the period from October 7, 2023 until April 6, 2024 shall not be taken into account in computing the limitation period. The Court may decide that due to recorded special reasons, the provisions of the Amendment will not apply to a claim the period of which expired immediately prior to the effective date of the Amendment.

Deferral of Deadlines Law (Provisional Instruction – "Iron Swords") (Contract, Judgment or Payment to an Authority), 5784-2023. On October 18, 2023, the Knesset passed this law, which grants those eligible (including soldiers in compulsory and reserve duty, residents of evacuated communities, and a company or partnership controlled by a person who meets one of the criteria set forth in the law) an arranged legal solution for deferring due payment dates or deferring an action, arising from a contract, judgment or payment to a public authority – and this for a period of sixty days or until December 31, 2023, whichever is earlier. On December 31, 2023, a Law was passed to amend the Postponement of Dates Law and refers to the period beginning on January 1, 2024 and ending on February 29, 2024 ("the Second Period"). Regarding the postponement of a date set in a contract that fall in the Second Period, the postponement is for 31 days. A postponement of a date set in a contract that falls in the First Period shall be for 145 days or until February 29, 2024, whichever is earlier.

Legislation for increasing competition in banking and financial services

Increase in Competition and Reduction in Concentration in the Banking Market in Israel (legislation amendments) Law, 5777-2017

The recommendations of the Committee for the increase in competition in banking and financial services ("the Strum Committee") were published on September 1, 2016. In continuation thereof, the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Law (legislation amendments), 5777-2017, ("the Law" or "the Strum Law") was published on the Official Gazette on January 31, 2017. The major part of its provisions is based upon the recommendations of the Strum Committee.

The Law enters into effect on date of its publication ("the beginning date"); however, certain of the provisions have later effective dates.

Following are the principal issues of the Law:

1.1 Prohibiting of a bank, the value of its balance sheet assets on a consolidated basis exceeds 20% of the total balance sheet assets of the banking industry ("a bank with Wide-Ranging Activity"), from engaging in operating the issue of debit cards, from clearing of transactions made by debit cards and from controlling or holding means of control in a corporation engaged in the said operations. This instruction does not derogate from the possibility of a bank having a Wide-Ranging Activity to engage with another entity for the purpose of operating the issue of debit cards or to engage with a clearing agent as a supplier. The prohibition takes effect at the end of three years from the beginning date, and with respect to a large banking corporation, which had sold at least 60% of the shares held by it in a credit card company and on condition that at least 25% of its shares had been offered to the public – at the end of four years from the beginning date. At the time of publishing the Strum Law, the Bank was not defined as a "Bank with wide-ranging activity", as this term was defined in the law.

1.2 In the period that began on February 1, 2021 and ending on January 31, 2023, the Minister of Finance is authorized to determine, with the consent of the Governor of the Bank of Israel and with the approval of the Finance Committee of the Knesset, that, restrictions shall apply also to a banking corporation which holds less than 20%, though not under 10%, and this taking into consideration, inter alia, the state of competition existing in the credit market.

In accordance with this, the Banking Licensing (Bank with Wide-Ranging Activity) Regulations, 5783-2023 were published in the Official Gazette on January 31, 2023 ("the Bank with Wide-Ranging Activity Regulations" or "the Regulations"), which reduced the assets value percentage in the definition of a "Bank with wide-ranging activity" to a rate in excess of 10% of the value. Therefore, the Bank is subject to an obligation to sell the means of control that it holds in ICC, with this to be done by the end of three years from the publication date of the Regulations or by the end of four years in certain circumstances, should an outline for a public offering be decided upon.

1.3 Various instructions applying to banking corporations were set, with the aim of ensuring increased competition in the granting of financial services, as detailed below:

1.3.1 A banking corporation shall not change to the worse the terms of engagement with a customer, only due to the fact that the customer has engaged or intends to engage with another financial body in an agreement for the provision of financial services.

1.3.2 A banking corporation is prohibited from preventing, either by an act of commission or omission, from a financial body engaged in operating the issue of debit cards issued by the banking corporation ("an operating body"), the granting of financial services, including the granting of credit, to customers of the banking corporation. A banking corporation shall also not restrict an operating body in providing of services, as stated above.

1.3.3 A banking corporation shall not prevent, either by commission or omission an operating body which is supervised under statutory provisions, the making use of information reaching the operating body while issuing or conducting the issue operation of debit cards, for the purpose of granting services as an issuer, for the purpose of granting credit, and for the purpose of operations related to the granting of services as an issuer or for the granting of credit, this on condition that the customer gave his consent in advance to the said use.

1.3.4 Starting with the end of two years from the beginning date, the banking corporation shall, at the request of the customer, present, on a daily basis or at longer intervals, the balance of the current account of the customer to a financial body supervised by law.

For the implementation of this directive, on December 25, 2017, the Amendment of Proper Conduct of Banking Business Directive No. 367 regarding online banking was published, deals with the transmission of information regarding the current account balance of a customer by a banking corporation to a financial body for the purpose of granting credit, made at the request of the customer. The Amendment took effect on July 31, 2018.

1.3.5 Starting with the end of two years from the beginning date, where a customer approached a banking corporation requesting entry into an agreement for the issue of a credit card, or where the banking corporation has approached a customer offering to engage in a credit card agreement, the banking corporation shall be required to distribute also credit cards of issuers engaged with the banking corporation in a distribution agreement (for details regarding the draft Proper Conduct of Banking Business Directive in the matter of distribution, see below).

1.3.6 A banking corporation shall not unreasonably refuse to engage with an issuer in a distribution agreement. In this respect it is proposed that stating unreasonable terms would be considered an unreasonable refusal.

1.3.7 Starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, information regarding transactions made by means of a debit card of the customer (including transactions made using debit cards issued by another issuer, which is not the banking corporation) and that the payment therefore is settled by way of charging the current account of the customer at the banking corporation. On January 31, 2019, an order was published that deferred the application date of the aforesaid directive to January 31, 2020.

On November 13, 2018, an amendment to Proper Conduct of Banking Business Directive No. 470, "Debit Cards", was published, within the framework of which provisions regarding the presentation of the aforesaid information were added. In addition, on February 3, 2019 the Banking Regulations (Customer Service) (Transfer of Information from an Issuer to a Banking Corporation), 2019 were published which prescribe the obligations to which issuers are subject in relation to the types of information and the dates for transferring the information from the issuers to the banking corporations.

1.3.8 Starting with the end of two months from the beginning date, a banking corporation is not permitted to unreasonably refuse a request of the borrower for consent to register an additional pledge on an asset, a subordinate pledge on an asset, in favor of another creditor. It is also determined that the realization of a pledge in favor of another creditor shall be effected only with the consent of the banking corporation. The banking corporation shall not withhold such consent, unless on reasonable grounds.

These instructions do not apply to a pledge registered prior to the termination of two months from the beginning date.

1.4 It was established that during a transitional period beginning on the beginning date and ending at the end of five years from the said date, and with respect to a bank having a Wide-Ranging Activity – until the end of three years from date of separation or until the end of five years from the beginning date, whichever is later ("the transitional period"), restrictions shall apply to a bank issuing debit cards and which immediately prior to date of publication of the Law had controlled or held means of control in a debit card company. Under the Bank with Wide-Ranging Activity Regulations, an additional transition period is prescribed that will commence on the publication date of the Regulations and will terminate at the end of five years from the aforesaid date and, with regard to a bank with wide-ranging activity – by the end of three years from the separation date or by the end of five years from the date of the Regulations taking effect, whichever is the later ("the Additional Transition Period"). With regard to the transition periods, the following restrictions have been prescribed:

1.4.1 A bank shall conduct the issuance operation of charge cards issued by it by means of an operating company, and shall allow the operating company to become a part to the charge card agreement.

1.4.2 As from the termination of a period of two years from date of publication of the Law and until the end of the transitional period and also from the end of one year from the publication date of the Regulations through to the end of the additional transition period, the bank shall not conduct, by means of one operating company, the issuance operation of more than 52% of the total new credit cards issued by the bank to its customers. The Minister of Finance is authorized to change the said rate at any time during the transitional period under the terms prescribed in the Law. The engagement of a bank with an operating company, for the purpose of conducting the issue operation of new credit cards issued by the bank to its customers shall be made only after conducting a process which allows every operating company the proper and fair opportunity to offer its services.

1.5 During the transitional period and the additional transition period, the following instructions will apply to a bank having a Wide-Ranging Activity which issues charge cards, additional instructions, inter alia, with respect to the division of income derived from issue operations of charge cards and from the activity of customers using charge cards, between a bank, as stated, and the charge card company; to the date of approach to the customer regarding the renewal of the Credit card; to restrictions regarding the total of credit facilities in charge cards of its customers (see below).

1.6 From the termination of one year from the beginning date and until a date to be determined by the Minister of Finance, and also from the end of one year from the publication date of the Regulations through to the date to be prescribed by the Minister of Finance, an operating company shall not unreasonably refuse to engage with a bank or with a license holder under the Supervision over Regulated Financial Services Law, in order to operate the issue of charge cards for the Bank or for the license holder.

1.7 During the transitional period and the additional transition period, a charge card company is entitled to make use of the engagement details of a customer, which had legally reached it prior to date of publication of the Law or during the transitional period, while conducting issue operations of a debit card on behalf of a bank, in order to approach a customer offering service as an issuer or for the purpose of offering credit, even without obtaining the consent of the customer.

1.8 Instructions have been determined with respect to the prohibition on the acquisition of means of control in a credit charge cards company. Thus, among other things, a bank may not acquire from a bank with Wide-Ranging Activity, means of control in a charge card company. In addition, a person holding over 5% of a certain class of means of control in a single charge card company, shall not control another charge card company and shall not hold over 5%

of a certain class of means of control therein. In this respect, charge card companies, which at eve of the beginning date were controlled by the same person, shall be considered as one charge card company.

1.9 Instructions have been determined in matters of control, the holding of means of control, and the appointment of directors in an interface system operator between the issuer and the clearing agent for confirming of charge card transactions – it is determined that one factor shall not control and shall not hold over 10% of a certain class of means of control in an interface system operator as stated. The Governor, under conditions specified in the Law, is entitled to determine a rate different than that stated above. Whoever was the owner of means of control in the operator at the beginning date, shall be permitted to hold such means of control until the end of four years from date of publication, provided that the means of control held by him exceeding 10%, shall not entitle him to any voting rights and the right to appoint directors in the operator as from June 1, 2017.

(Due to these restrictions, the Bank is required to sell its holdings in Automatic Banking Services Ltd. that exceed 10%, with this having to be done by June 1, 2021. Accordingly, the Bank sold within the framework of a public offering of shares of ABS, completed on June 5, 2019, shares comprising approx. 9.3% in ABS. On September 4, 2019, the Bank transferred to Mizrahi Tefahot Bank Ltd. shares comprising 0.7% of ABS. Following the said sale and transfer, the rate of holdings of the Bank in ABS was reduced to 10%).

1.10 Within the framework of the Law, amendments were made to the Supervision over Financial Services Law (Regularized Financial Services) Law, 5776-2016, and a chapter was added thereto in the matter of service for comparing financial costs. The Bank of Israel informed on August 6, 2018 that it had started the project of regularizing the API Standard for open banking in Israel, which allows third parties, with the consent of the customer, to receive from the banks financial information regarding the customer (see below).

1.11 Prohibition on the unreasonable refusal of engagement between a clearing entity and an aggregator or the prevention of engagement between an aggregator and a supplier.

1.12 By January 31, 2018, the Ministry of Finance is to implement one of these: to publish, in consultation with the Bank of Israel, a tender for establishing a technological infrastructure to provide and operate computerization services to financial bodies; to prescribe criteria for conferring grants, loans or guarantees that will enable the provision and operation of computerization services to financial bodies (see hereunder "Letter of principles for increasing the competition in the financial system" regarding the provision of assistance for establishing a banking service and computerization bureau).

1.13 At the end of eighteen months from the beginning date, if certain conditions determined in the Law are fulfilled, the Minister of Finance, in consultation with the Governor and the Antitrust Commissioner, is entitled to determine that a bank not having a narrow-ranging activity (bank having a narrow-ranging activity - a bank, the value of balance sheet assets of which on a consolidated basis does not exceed 10% of the total value of balance sheet assets of the banking industry), is obligated to sell and operate computer services in use mostly by this bank, and rent out property in use by the bank for this purpose, to financial bodies.

In the Economic Plan Law (Legislative Amendments for Implementing the Economic Policy for 2023 and 2024), 5783-2023, which was published on June 6, 2023 the Strum Law was amended so as to annul the instruction that requires a bank with wide-ranging activity that issues charge cards to reduce the credit facilities on the credit card it issues to its customers with effect from February 1, 2024 (see below); cancelation of the instruction in the Strum Law, according to which a bank with Wide-Ranging Activity is entitled to approach a customer in the matter of renewal of a credit card, only within 45 business days prior to the termination of the credit card agreement, this as from June 1, 2025; the Banking Law (Customer service) has been amended in a way stating that a banking corporation has to allow the operational charge card issuing body, to obtain the customer's consent to make use of the information received by the operational body incidental to issuing the card or to the issuing operation, for the purpose of providing financial services to the customer in respect of which that body is regulated. In addition, it was determined that a banking corporation should not be able to prevent the operational body, either by an act of commission or omission, from obtaining the customer's consent as stated. For further details regarding the Law, see below.

Amendment to Proper Conduct of Banking Business Directives. For the purpose of implementing the provisions of the Strum Law, the Supervisor of Bank published further amendments to Proper Conduct of Banking Business Directives.

Letter of principles for increasing the competition in the financial system - Continuation of the plan for strengthening competition in the banking market. On December 13, 2017, the Ministry of Finance and the Bank of Israel published a continuation of the plan for strengthening competition in the banking market. The plan includes three measures: mobility between banks at the “press of a button”, making it possible for the consumer to compare costs relating to his personal financial products, reliefs for new banks by means of assisting in setting up an office for banking computerization services.

Regulation of Dealings in Payment Services and Initiated Payment Law, 5783-2023. On June 6, 2023, the Law was published as part of the Economic Plan Law (Legislative Amendments for Implementing the Economic Policy for the 2023 and 2024 budget years), 5783-2023. The Law forms a complementary regulation to the Payment Services Act, 5779-2019, which applies consumer duties to providers of payment services in relation to their customers, and is intended to increase competition in the payments field and regulate engagement in payment services by introducing a new supervisory and licensing regimen. The Law states that nonbanking entities are required to obtain a payment services license and/or an initiation of payment services license, and that foreign providers of payment services wishing to operate in Israel are also required to obtain a license, though they may be entitled to relief regarding certain of the duties. As regards the activity of payment companies, restrictions have been set in the fields of operation and to the granting of credit. In addition, a required was determined to establish linkage between the payment applications themselves, as well as with managers of payment accounts, so that all transfers of funds between them shall be effected via identification by means of the mobile phone number of the customer (for details regarding the formation of principles with respect to an identifying detail by the Bank of Israel, see below). Further duties were determined for managers of payment accounts with respect to basic initiation services and advanced initiation services, and inter alia, instructions relating to the granting to a provider of a payment initiation service access to a payment account of a customer, for the purpose of issuing payment orders by means of an interface system for the issue of payment orders. The Law would largely take effect as from June 6, 2024.

Credit facilities provided by bank cards. The Strum Law prescribes that as from the end of four years since the Law took effect and up to seven years since the Law took effect, credit facilities provided by credit cards held by customers of the major banks shall not exceed 50% of the total credit facilities provided by credit cards of those banks, as existed in 2015. In November 2020, with the consent of the Governor of Bank of Israel and with the approval of the Economic Committee of the Knesset, The Minister of Finance issued an Order, in effect for a limited period of one year, within the framework of which it was determined that the total of all credit facilities provided by credit cards held by customers of a bank with Wide-Ranging Activity, which issues debit cards during that year, shall not exceed 55% of the total credit facilities provided by credit cards held by customers of that bank, as existed in 2015; in computing the total credit facilities , as stated above, only credit facilities of the bank’s customers exceeding NIS 7,500 , should be taken into account; and the credit facility of a customer shall not be reduced to less than NIS 7,500, only because of that stated in this Section.

On January 31, 2022, the Minister of Finance, with the agreement of the Governor and with the approval of the Knesset Economic Affairs Committee, issued an additional order on this subject. The order extends the validity of the previous order’s provisions by one additional year.

In accordance with the Bank Having Wide-Ranging Activity Regulations, which were published on January 31, 2023, the period of this provision has been extended so as to commence from the end of four years from the publication date of the Regulations through to the end of seven years from their publication date.

On February 1, 2023, a further order was published in this matter. According to this order, the total of the credit card facilities of customers of a bank with wide-ranging activity that issues charge cards, in any year, shall not exceed 75% of the total credit card facilities of the bank’s customers as of 2015. In calculating the aforesaid total credit facilities, credit facilities of the bank’s customers exceeding NIS 10,000 are to be taken into account. A customer’s credit facility is not to be reduced to an amount below NIS 10,000, purely to take advantage of the contents of this section. As detailed above, the Economic Plan Law cancelled the provision that requires a bank with wide-ranging activity that issues charge cards to reduce the credit facilities on the credit card it issues to its customers and this as from February 1, 2024.

Economic Plan Law (Legislative Amendments for Implementing the Economic Policy for the 2023 and 2024 budget years), 5783-2023. On June 6, 2023, the Law was published, referring to various areas, including fields that have implications for the banking system. In addition to the amendments to the Strum Law and the Banking Law (Customer service) detailed above, further amendments were made to the Banking Law (Customer service) in a way that a banking corporation that refuses to open a credit balance shekel current account for entities holding licenses in the financial field, or where no such service had been provided after three months, would have the duty of submitting to the Supervisor of Banks a reasoned notice in the matter; to require banks to send to customers a monthly notice regarding commissions and interest charged by the bank in the preceding month, and to require a banking corporation to inform its customers with respect to the full pricelist and the condensed pricelists, that the bank is permitted to charge lower amounts than those stated in the pricelists. In addition, it is determined that a banking corporation is not permitted to charge commission in contradiction to the full or condensed pricelist, in contradiction to an agreement with the customer according to which the commission charged would be in an amount or rate lower than the amount or rate stated in the full pricelist or in the condensed pricelist and in respect of a service not actually provided; and amend the penalties and sanctions chapter of the Law, inter alia, with respect to the above amendments.

Proper Conduct of Banking Business Directive No. 424 – opening of a credit balance current account for financial entities. The Directive was published on December 24, 2023, according to the authority conferred upon the Supervisor of Banks by the Arrangement Law. The Directive is intended to regulate the requirements applying to banking corporations following the opening and management of an account for financial entities providing off-banking financial services. The above includes delivery of a reasoned notice to the customer in case of refusal to open an account or delay in taking a decision in the matter; reporting to the Supervisor of Banks in case of refusal to open an account or delay in doing so.

The Economic Program Law (Legislation amendments for the implementation of the economic policy for the 2023-2024 budget years), 5783-2023. The Law, published on June 6, 2023, amended the Supervision over Financial Services Law (Pension consultation, marketing and clearing system), 5765-2005, so that an institutional body (a company managing an insurance company) shall not be permitted to refuse, under an "unreasonable refusal", engagement in a distribution agreement with a pension consultant or terminate such engagement.

Report of the Interministerial Team Examining Chapter 4 - Law for Promotion of Competition and Reduction of Concentration, 5774-2013

On September 21, 2022, the report regarding the separation of non-financial corporations from financial entities was published. The team, which was set up in accordance with the provisions of the Law for Promotion of Competition and Reduction of Concentration, delivered its conclusions to the chairman of the Knesset's finance committee. Inter alia, the team is recommending prescribing that a significant non-financial corporation not be allowed to hold an auxiliary banking corporation, which is considered to be a significant financial entity. If the recommendation progresses to legislation, this could impact on the holding of Shufersal in PayBox.

Policy for establishing new banks and guidelines for license applicants

On June 3, 2018, the Bank of Israel published a policy that arranges, clarifies and simplifies the process for establishing a bank and creates regulatory certainty at an early stage of the licensing process for the entrepreneur interested in establishing a bank.

The new policy enables an entrepreneur to receive a restricted bank license, under which it will be possible to conduct limited deposit receipt and credit granting operations. Following completion of all the processes required according to the outline to be agreed with it, the restricted license will be exchanged for a permanent license.

The policy prescribes reduced regulation over new banks that conduct noncomplex operations, such as retail operations. On March 8, 2020, the Supervisor of Banks issued Proper Conduct of Banking Business Directive No. 480 regarding modifications to the rules of Proper Conduct of Banking Business Directives relating to a new banking corporation. The Directive includes modifications regarding compliance requirements, which would burden a new banking corporation.

Announcement by the Bank of Israel regarding permission for the establishment of a digital bank in Israel.
In continuation to the stated, on September 24, 2019, the Bank of Israel announced the granting of a permit for the establishment of a new bank in Israel. The Digital Bank "One-Zero" obtained a license to begin operations as from March 1, 2021, and restrictions regarding its operations were removed on January 10, 2022.

In December 2022, it was announced that another digital bank, Bank Esh, had been granted an operating license in Israel.

Call for public comments on a graduated outline of licensing and proportional regulation for off-banking entities in order to increase competition in the banking system. On February 14, 2024, the Bank of Israel published the document, which proposes a graduated outline for types of banking corporation licenses, which are adapted to the desired activity and to the level of risk therein: (1) a license for a banking corporation that has a financial institution license that allows the financial institution to accept deposits (without managing current accounts) and to grant credit therefrom. This level currently exists under the Banking Law; (2) a license for a banking corporation that has a basic bank license for a corporation whose activity is not complex, as this term is defined in Proper Conduct of Banking Business Directive No. 480, on “Adjustments to Proper Conduct of Banking Business Directives that Apply to a New Banking Corporation”, and that also meets the definition of a bank with Small-Ranging Activity in Section 5B1 of the Banking Law (Customer Service), 5741-1981. Such a banking corporation may, in addition to accepting deposits and granting credit therefrom, also manage current accounts and grant credit therefrom; (3) a banking corporation with an extended bank license that does not meet the definition of a “financial institution” and a “basic bank”.

Legislation and Regulation of taxation of the banks' profits, deposits, current accounts and banking consumption

Law Memorandum for the Amendment of the Value Added Tax Law (Provisions Regarding Salary Tax and Profit Tax on Banks) (Provisional Instruction), 5784-2024. For details, see Note 8 K above.

Special discussion in the matter of interest on deposits, on current accounts and loans in the banking system. On June 20, 2023, the Governor of the Bank of Israel and the Supervisor of Banks held a special discussion with CEOs of the banks in the above matter, within the framework of which, the Governor presented to the banks the following central goals: (1) Payment of a fair interest rate on credit balances of households; (2) Active and continuous encouragement of customers having a credit current account balance exceeding a certain amount, to divert funds held on current account to more profitable channels; (3) Active assistance to mortgage loan borrowers found to have most significant difficulties; (4) Alleviating the burden relating to customers having a debit balance in their current accounts. The Governor directed the CEOs of the banks to report to the Supervisor of Banks as to their preparations to attain the goals set forth by him.

Starting a process of consultation regarding declaration of a centralized group in the banking field. On June 29, 2023, the Competition Authority issued a notice on the media, according to which, the Commissioner of Competition had started a process of consultation with the Governor of the Bank of Israel and with the Supervisor of Banks regarding the possibility of declaring a centralized group in the banking field and of issuing instructions to banks with respect to deposits and current accounts. This notice was published following an examination being conducted by the Authority since September 2022, with respect to the deposits field and other banking products. According to the Authority, based upon preliminary findings of its examination, limited competition exists between banks in the area of acceptance of deposits in the retail sector. It was further stated, that the Commissioner has not yet completed his examination and that the Competition Authority is still in the stage of drafting the version of the considered instructions and of consultation with additional Regulators. To the extent that the Commissioner would declare a centralized group, a hearing would be held regarding the declaration and the instructions being considered by the Commissioner (for additional details, see ”Proceedings regarding Authorities” below).

Proposed legislation amendments regarding the development of the money market. The proposal was published on August 30, 2023 by the Israel Securities Authority after having been approved by the Authority plenum on August 29, 2023. The proposal proposes amending the Joint Investment Trusts Law, 5754-1994, and the Regulation of the Practicing of Investment Counseling, Investment Marketing and Investment Portfolio Management Law, 5755-1995, in order to enable the launch of new money market funds that enable solid and transparent investment in relation to the expected anticipated yield, by expanding the distribution channels of these funds in order to make them accessible to the general public without any preconditions regarding the investment amount. The Ministry of Finance published the Monetary Funds Bill Memorandum (Legislation amendments), 5783-2023 on July 30, 2023. Within the framework of the amendments, it is proposed to empower the law to determine rules for the characteristics of monetary funds, in a way that would allow development of new monetary funds having characteristics similar to the characteristics of the monetary deposits; expansion of the mediation possibility regarding each monetary fund at a fixed date of up to one year, with a view of improving accessibility of monetary funds to the general public; and empowering the law so as to allow payment of brokerage fees to parties introducing the monetary funds.

Public call for comments regarding the matter of increased competition in the field of bank deposits. On July 12, 2023, the Ministry of Finance issued a public call for comments regarding a possible alternative for the promotion of competition relating to deposits by means of a "default deposit", this in order to increase competition in the field of bank deposits by households. According to the public call, this goal would be achieved by means of a bidding procedure between the banks. Regarding some deposits, banks are required to offer the winning deposit to their customers by pushing a button, using the "closed system" mode.

Draft amendment of Proper Conduct of Banking Business Directive No. 367 – E-Banking. On July 5, 2023, the Supervisor of Banks published a draft amendment of Directive No. 367, whereby it would be possible to approach all customers by way of SMS, with no need to sign an online banking agreement, with respect to encouragement of customers, who have a credit balance on their current account exceeding a certain amount, to divert funds to more profitable interest bearing channels and in the matter of assistance by the bank to mortgage loan borrowers found to be or expected to be found in difficulties.

Banking Law (Customer service) (Amendment No. 37) (Notice regarding the termination of a banking benefit), 5783-2023. The Amendment, published on January 28, 2024, states that banking corporations shall be committed to inform customers as to the termination of a banking benefit or a graded banking benefit (as the terms are defined in the Law), the effective period of which exceeds three months, and this, twenty-one days prior to the expiry of the benefit period and in the manner stated in the Amendment. The notice regarding the termination of the benefit with respect to charge card fees shall note the manner for the termination of the engagement regarding a charge card. The amendment will go into effect 6 months from the date of its publication.

Draft Amendment of the commission rules regarding securities deposit management fees. An updated draft of the proposed Amendment was distributed on January 25, 2024, the essence of which is a change in the structure of management fees for securities deposits and the charge date thereof. This, with a view of simplifying for the customers the charge mechanism, creation of transparency in respect thereof and facilitating the cost comparison by customers. The updated draft proposes that the fees would be in a fixed amount instead of being percentage fees in accordance with two value levels, the one up to NIS 100 thousand and the other above NIS 100 thousand, and also added is reference to the addition of investment consultation service to the list of services for which a banking corporation may charge its customers with a commission. In accordance with the draft, the commission would be charged at the beginning of the service in respect of a full year and would be computed as a ratio of the value of the investment portfolio at the beginning of the year.

Draft Amendment to the Commission Rules regarding the definition of a "small business", updating the bank guarantee commission and the "early repayment" commission. On January 16, 2024, the Banking Supervision Department released an updated draft of the proposed amendment, which mainly involves updates to the definition of a "small business", inter alia, in a way that excludes from the definition venture capital funds and businesses in which a significant investment has been made by a venture capital fund, an update to the commission mechanism for the "Bank Guarantee" service instead of a percentage commission and a fixed commission, this, in order to make the service cheaper in the case of a bank guarantee secured by a financial deposit, and an update with regard to the "early repayment" commission, which clarifies that the commission can be charged at most once for early repayment of a loan, on its repayment schedule at a specific time.

Draft Amendment of Proper Conduct of Banking Business Directive No. 417 – Activity of a banking corporation in a closed system. An updated draft was published on February 28, 2024, is intended to encourage competition in the banking system and to encourage product deployments. The draft seeks, among other things, to create a convenient operating system (in a closed system) which will allow the customer to transfer money for the purpose of making a deposit in a bank in which he does not hold his current account. With this being on condition that, upon the deposit's termination period, the funds will be transferred back to the transferor bank. In addition, it was determined that it would be possible, at the request of a customer and under certain terms, to leave the funds at the transferee bank for the purpose of depositing them for an additional period.

Draft of Proper Conduct of Banking Business Directive, "Interest Rates on Deposits and Account Credit Balances" and supplementary draft of Amendment of the Banking Rules (Customer Service) (Adequate Disclosure and Document Delivery), 5752-1992. On January 15, 2024, update drafts were published and on February 28, 2024, a second revised draft was published of the Proper Conduct of Banking Business Directive. The amendment to the disclosure rules updates the notification regarding the crediting of interest with respect to a credit balance on an account and the rules regarding the publication of information to the public about the interest rates on deposits and on account credit balances. As a result of the amendment and without derogating from the provisions of the disclosure rules, it is proposed to promote a new Proper Conduct of Banking Business Directive that will establish rules for concentrated disclosure, in a prominent and clear location, of a uniform structure for presenting interest rates and other characteristics of accepted deposits and current account interest rates, inter alia, to enable inter-bank comparisons and greater transparency. In addition, it is proposed in the draft directive to impose a duty of offering customers a search mechanism that will enable them to receive targeted information that meets their needs regarding the types of deposits on offer.

Supervision over Financial Services (Pension Consulting, Marketing, and Clearing System) (Amendment No. 13) Bill, 5784-2024. On February 12, 2024, a government bill was brought before the Knesset whose aim is to allow banking corporations to provide pension consulting services also via digital and telephone channels, and not just face-to-face.

Private legislation. In view of the rising of the Bank of Israel interest rate during the years 2022 and 2023, several private Bills have been recently tabled before the Knesset with respect to interest on deposits, payment of interest on current accounts and interest on housing loans. Thus, for instance, the Bills propose determination of rules applying to banks for the payment of interest on deposits, requiring banks to pay interest on funds held by customers on current accounts and determine rules regarding the limit to the rise in interest on housing loans in case of a rise in the Bank of Israel interest.

In addition, several private Bills have been tabled proposing the determination of rules for the taxation of "excess profits" of banks deriving from the rise in interest rate. All the private Bills tabled as above, are at a preliminary stage, and therefore at this phase it is not possible to assess the possibility or prospects of their advancement.

Economic Competition

Agreed outline for the separation. On February 27, 2022, the competition authority announced that the Commissioner of Competition in conjunction with the Bank of Israel had reached an agreed outline for the complete separation of ABS and BCC, and accordingly, an agreed application for approval of the separation outline has been submitted to the Competition Tribunal, so that the restrictive agreement would be approved under agreed terms.

On April 12, 2022, the Competition Authority made an announcement, according to which, the Competition Tribunal had fully endorsed the agreed outline for the separation of the companies, formed in cooperation with the Payments Division of the Bank of Israel. According to the outline, the staff and offices of these companies would be separated by August 2022, most of the applicative developments enabling increasing competition between the companies would be separated by the end of 2023, the infrastructure of the companies would be separated by the end of 2024, and the computer hardware of the companies would be separated by the end of 2027.

For further details, see the 2021 Annual Report (p. 416-417).

Extension of exemption from approval of a restrictive agreement in connection with a holding and joint activity within the framework of ABS. On December 28, 2022, the Competition Commissioner published a decision to exempt from approval of a restrictive agreement with regard to ABS ("the Exemption Decision"). The Exemption Decision renewed the approval of the restrictive agreement for ABS's operations, which was published on September 24, 2017. The terms of the extended exemption were adjusted to reflect changes in the ownership structure of ABS and other regulatory changes that apply to the company. In addition, the Commissioner rejected ABS's request to operate in additional fields other than the fields in which it currently operates and retained the condition that requires that the Commissioner's approval be obtained for any new field of activity that ABS wants to operate in. The arrangement was approved for six years and will be reviewed before its expiry at the end of 2028.

Opinion no. 3/23 of the Competition Authority in the matter of information obtained by the Competition Authority and its perusal by factors other than those providing the information. On September 27, 2023, the Opinion was published, which interpret for the first time, the policy of the Authority in its relations with entities that are required, under the Economic Competition Law, to provide it with data and information, as well as with respect to having such information available to entities entitled to it under the Administrative Tribunals Law.

Debt Collection

A trend of increasing legislation and standards in the matter of debt collection has been noticed in recent years. The intensive regulation in the realm of debt collection, the aim of which is relief for the borrower could result in the rights of creditors being harmed, and in particular, the "powerful" lenders, such as the banks, to recover their loan from the borrower. On the one hand, the sympathizing approach to insolvent debtors, with a less sympathizing approach to the banks on the other hand, alongside the accessible possibility of obtaining a discharge, and the fact that many proceedings are conducted with no judiciary control but by only an administrative body, may lead to it that many debtors will choose insolvency proceedings in order to get rid of past debts.
In this framework, the following legislation matters should be mentioned:
- Debt Execution Law (Amendment No. 46), 5775-2015;
- Banking Law (customer service)(Amendment No. 19), 5774-2014;
- Proper Conduct of Banking Business Directive No. 450 of the Supervisor of Banks - debt collection procedures.

The Insolvency and Economic Recovery Law, 5778-2018

On March 21, 2023, an amendment to the law was passed - Insolvency and Economic Recovery (Amendment No. 4 – Temporary Provision) (Amendment – Extension of Validity) Law Memorandum, 5783-2023, according to which the validity of Amendment No. 4 to the Insolvency and Economic Recovery Law, 5778-2018, was extended until March 17, 2024. The validity of the stay of proceedings track was also extended to allow the drawing up of a debt restructuring, which is included in the Law as a temporary provision. The extension is intended to allow the formulation of long-term recommendations in relation to the need for a special track to encourage debt restructurings. On the background of the "Iron Swords" War, a draft Memorandum was published on January 29, 2024, for the prolongation of the period of the Provisional Instruction by an additional period of nine months, until January 17, 2024, as well as authorizing the Minister of Justice, with the approval of the Constitution, Law and Justice Committee of the Knesset, to prolong by Order, the period by three additional months at the most.
For further details, see the 2021 Annual Report (pp. 415-416).
Adjudication of Interest and Linkage Law (Amendment No. 9), 5782-2022, and the Execution of Court Rulings Bill (Amendment No. 71) (Interest and Arrears Fees), 5782-2022. On November 19, 2023, the amendments were published in the Official Gazette. The amendment separates the economic base-interest component from the arrears fee component, and prescribes that the arrears fee is to be an incentive and is to be at a the rate lower than that prior to the amendment, that it is to be stopped for debtors who meet their payments, that it is to no longer accumulate compound interest so as to prevent the enlargement of the debt, and that it is to be added at defined time spots and not on a daily basis. Regarding banking indebtedness, it was prescribed that if the debtor pays the debt to the bank within the framework of an execution case and under a payments debit order, he is entitled to a reduction in the arrears interest component at the rate set in the amendment. These are actions that will be carried out by the execution office, and the bank may submit a request to lower the rate of reduction.

Clearing and Controlled Payment Systems

A document of principles for payment by means of an identifying item (Proxy) regarding immediate payments by BCC. In a document dated July 3, 2023, the Bank of Israel stated uniform principles for the implementation of an identifying item applying to all providers of payment services operating in the immediate payment system of BCC. Inter alia, the document relates to different types of identifying items, which are to be supported by the manager of a payment account for the purpose of identification of a beneficiary business/private customer in the default account of the customer, and to the consent of the customer to accept immediate credits and payment requests by means of the identifying item.
It is further stated that until June 2024, a provider of payment services is required to contact his beneficiary business/private customers and obtain their consent to join the "proxy" service as well as relate the default account to the identifying items, in accordance with that stated in the document and the preferences of the customer.

Statement of principles for the application of R2P ("Request To Pay") by means of the immediate payments of BCC. A basic payment request is an ancillary service to the immediate payment service of BCC, allowing the beneficiary to digitally request payment from a payer. The document details, inter alia, the manner of received requests for payment, the manner of attaching customers to the service, fields detailing the payment request, documentation, the functions at BCC that can operate the service, risk management relating to the service, and more. On October 18, 2023, the Bank of Israel announced the deferral of the date of application of the service from March 2024 to the end of June 2024.

Letter to BCC, ABS and to participants in payment systems regarding access to the systems – clearing representation duty. The letters that have been sent to managers of the systems and to participants therein, clarify the duty of representation that participants in clearing are required to apply in each of the systems. The representation duties include, inter alia, an instruction, according to which, a clearing participant shall not unreasonably refuse to represent for clearing a provider of payment services so long as he fulfills the system's access terms, and also verify that the clearing participant does not require unreasonable conditions for representation. The representing participant may charge a commission in respect of the representation service, and is required to determine rules for the management of the risks involved in representation.

Guide to access the supervised payment systems in Israel. In June 2023, the Bank of Israel published a "Manual for the access to payment system", which explains to nonbanking entities, including local and international fintech companies, the way of joining the core systems of the financial sector in Israel, alongside the banks, and provide services to the public. The document includes details of the different payment systems and types of possible participation in these systems, procedures for joining the supervised payment system by new entities, including the stages and requirements by all relevant factors, for the beginning of operation in the system.

Exemption from a restrictive agreement – mutual recognition agreement. In July 2023, a ruling was received granting an exemption from a restrictive agreement in connection with the mutual recognition agreement, extending the validity of the previous exemption, with its terms unchanged, for a year. The agreement regulates a mutual consent for customers who hold a charge card issued by a party to the agreement to use the automatic cash withdrawal devices of the other parties. The parties to the agreement are the following banks" Poalim, Leumi, Discount, Mizrahi, International, Jerusalem, Yahav and One Zero, as well as Casponet Ltd. and A.T.M.S. Matrix Ltd. company. Under the terms of the previous exemption, from June 2018, terms were imposed on the parties to the arrangement that, inter alia, required them to provide bilateral ATM clearing services to any entity that joins the agreement. In that ruling, it was specified that, should ABS establish a central ATM clearing system, these conditions would expire. In the new ruling from July 2023, it was noted that ABS had updated the Commissioner that it had begun operating a central ATM account settlement and clearing system, in a manner that is apparently expected to eliminate the need for bilateral communication between the parties for the purpose of ATM clearing activity. In light of this announcement, it was decided to extend the previous exemption ruling, with its terms unchanged, for an additional period of one year, after which the exemption application and the terms thereof will be examined in accordance with the implications of the aforesaid change.

Exemption from the restrictive agreement – the domestic clearance arrangement. The expiration date of the exemption is currently March 31, 2024; the parties to the arrangement submitted a new application for the commissioner's approval for the extension of the exemption prior to this date. Following the filing of the parties' application for a settlement, on February 8, 2024, the Competition Authority issued a call for public comments regarding two applications for exemptions from a restrictive agreement submitted to the Authority, one between Visa and MasterCard, and the other between the IsraCard brands, which dealt with cross-clearing agreements. The public comments process published by the Authority ended on February 29, 2024.

The Bank of Israel's announcement regarding measures to promote the payment market and a response to market needs during the Iron Swords War. On November 19, 2023, the Bank of Israel published an announcement regarding the aforesaid measures and response: increasing the amount limit on a single check deposit via a mobile phone from NIS 50,000 to NIS 100,000; the basic standards that need to be applied in the areas of data security, cyber protection and business continuity in a debit card transaction chain; assigning identification codes to three off-banking players in the payment services field; allowing international clearing agents with a license from a recognized country to begin the process of joining the charge card services system operated by ABS, without the actual commencement of clearing activity, with this being before applying for a license that enables the provision of clearing services in Israel; publishing the fees and commissions and implications of joining as a participant in the RTGS

(ZAHAV) system, also for off-banking entities; extending the identification codes in the financial sector by the end of December 2026 in order to enable more off-banking entities to operate in the payment systems; and, updating with regard to the activity of a variety of consumer loyalty clubs already in existence in the credit card infrastructure.

Clearing default arrangements in payment systems - BCC, ABS ATM branding and ABS debit cards. Clearing default arrangements in each of the payment systems, which aim to ensure the completion of the daily clearing on time, were transferred to the management of the payment systems and arrangements were formulated to ensure the completion of the clearing on time.

The years 2022-2023 were characterized by abundance of guidelines relating to clearing services and the regulation of the activity of ABS and BCC, in each of which the Bank holds 10% and 25%, respectively.

Privacy and data protection

Privacy Protection Bill (Amendment No. 14), 5782-2021. The Bill, which has passed the first reading by the previous Knesset, includes, inter alia, the following changes: expansion of the administrative and criminal enforcement tools of the Privacy Protection Authority; authorization of the Authority to impose monetary sanctions; reducing the bureaucratic burden by means of a significant reduction in the duty of registering data bases; adaptation of the definitions contained in the Law to up to date technological developments, inter alia, by way of expansion of the definition for 'data' and expansion of the principle of 'linkage to the purpose', with a view of limiting the ability of making use of data for a purpose other than that for which the data had been rendered. During 2023, discussion of the bill was renewed at the Knesset's Law, Constitution and Justice Committee and, in January 2024, an updated version of the bill was published in the Official Gazette.

During 2023, the Privacy Authority published a number of position papers, opinions and guidelines, including: opinion on the collection of male and female employees' location data through apps and vehicle positioning systems; a guideline on the role of the board of directors in fulfilling corporate obligations under the Privacy Protection (Data Security) Regulations; an action guide for entering into engagements with outsourcing providers – Regulation 15 of the Privacy Protection (Data Security) Regulations; a policy document dealing with the collection and use of biometric information for workplace attendance control; a document dealing with security risks in Link services; and, a document dealing with privacy aspects of surveillance of male and female employees' remote work.

Privacy Protection Regulations (Instructions regarding information supplied to Israel by the Economic Eurozone), 5783-2023. On May 7, 2023, the Regulations were published, which impose various duties to owners of data bases storing personal information (as defined in the Regulations) received from the Economic Eurozone, excluding personal information supplied by the subject matter of the information himself. The duties are: to allow the person to whom the information relates, to request erasure of the information, if it had been collected illegally, or it is no longer required for the purpose for which it had been collected, limiting the keeping of information which is no longer required, maintenance and accuracy of the information saved in the data base, and informing the subject matter of the information as to the receipt and transfer thereof. The above duties apply to data base managers in cases stated in the Regulations and subject to exceptions stated therein. As to new information received from the Eurozone after the publication of the Regulations, the Regulations took effect on August 7, 2023, whereas, information already existing in data bases in Israel that had been received from the Eurozone, the Regulations will apply as from the end of one year from date of publication. As to information already existing in the data bases in Israel, received from sources outside the Eurozone but saved in the data base together with information received from the Eurozone, the Regulations will take effect on January 1, 2025.

Prohibition of money laundering and Prohibition of Financing Terror Activities

Promotion of reform of the Prohibition of Money Laundering Law. On February 4, 2021, the Money Laundering Prohibition Authority issued an approach to the private sector, including the Bank, stating that the Authority – in cooperation with the Consultation and (Criminal) Legislation Department at the Ministry of Justice and all the financial regulators – is promoting a major reform of the money Prohibition of laundering and the prohibition of terror financing regime in Israel. According to the approach, this will be done through a comprehensive amendment of the legislation aimed at prescribing uniform fundamental provisions, which will be part of the Money Laundering Prohibition Law or will be promulgated thereunder, and which will apply to all financial entities.

In continuation, during 2023, the Money Laundering Prohibition Authority issued an updated draft of Money Laundering Prohibition Order (Identification, Reporting and Record Keeping Obligations of a Provider of Financial Services to Prevent Money Laundering and Terror Financing), 2021. This is a draft of a uniform order that will apply to all the financial entities in the economy (including banking corporations and providers of financial services, as defined in the Providers of Regulated Financial Services Law) and will specify basic, identical and uniform provisions for all the financial bodies that report to the Authority. In conjunction with the uniform order, the regulator for each of the financial bodies to which the uniform order applies will issue directives that are specific to the bodies that it oversees. This is in contrast to the current situation, where separate orders exist for different financial bodies in the economy. The draft of the uniform order sets out various provisions regarding the "know your customer" obligation, identification and verification, recording electronic transfers and transfers of virtual assets, and reporting to the Money Laundering Prohibition Authority.

Capital Market

Proper Conduct of Banking Business Directive regarding a banking corporation's activity as a broker-dealer. The directive was published on July 19, 2023, and it regulates the activity of the banking corporations in the field of financial brokering, with regard to the receipt and transfer of orders for executing transactions in securities for customers, both in their activities as brokers and also by way of trading on their own account (broker-dealer activity). The purpose of the directive is to ensure a fair market, high quality in the execution of transactions and full transparency that will help protect the customers of the banking corporation and increase their trust in the market and banking system. The directive focuses on the banking corporation's activities in the capital market, both with customers and with the banking corporation itself, including those carried out in the dealing rooms and including when the banking corporation provides its customers with direct electronic access to a regulated market. The directive's commencement date is January 2025 and, upon going into effect, it will replace the provisions of Proper Conduct of Banking Business Directives Nos. 419 and 461. On January 15, 2024, the Banking Supervision Department issued a draft of an amendment to the directive, in which it is proposed to postpone the commencement date to August 1, 2025.

Encouragement of Capital Market Activity (Legislative Amendments) Law memorandum. In order to encourage growth and activity in the capital market, the Ministry of Finance and the Israel Securities Authority published a law memorandum on January 1, 2024, which includes measures to boost the economy and develop the capital market against the background of the consequences of the Iron Swords War: Promoting significant reliefs in relation to the provision of general consulting, both by entities supervised by the Israel Securities Authority and by entities that are not engaged in providing service to customers in the financial field; promoting reliefs that will enable additional dual-listed companies to list on the stock exchange in Israel; steps to increase competition in credit to businesses through regulatory easing of the commercial securities market; steps to develop the analytics market in Israel; and, steps to expand the public's investment options by establishing alternative mutual funds.

Regulation of Securitization Transactions Bill (Legislation amendments), 5783-2023. The Bill Memorandum was published on July 30, 2023, inter alia on the background of the report issued in November 2015, by the team for the promotion of securitization in Israel, and it includes four principal items: (1) Regulation of a securitization transaction and its legal ramifications; (2) Regulation of the offer to the public of debt notes issued by the designated corporation conducting the securitization in accordance with the Securities Act; (3) Permitting the designated corporation to issue debt notes and concurrently grant credit in accordance with the Banking Law (Licensing); (4) Regulation of the tax aspects relating to securitization transactions. Together with the publication of the above Memorandum, a Bill Memorandum was published for the amendment of the Income Tax Ordinance, regulating the tax that would apply to securitization transactions, in order to encourage such transactions. A draft proposal for the amendment of the Memorandum in the matter of the amendment of the Income Tax Ordinance was distributed on January 30, 2024.

Amendment to the applicability of securities laws with regard to digital assets. On August 14, 2023, the Israel Securities Authority published an updated proposal to amend the Securities Law, the Joint Investment Trusts Law, the Regulation of the Practicing of Investment Counseling, Investment Marketing and Investment Portfolio Management Law, and the Prohibition of Money Laundering Law. The proposal is intended to regulate, inter alia, the application of securities laws to activities carried out in relevant digital assets.

Corporate governance

Amendments of Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors and Proper Conduct of Banking Business Directive No. 301A in the matter of compensation and the letter of the Supervisor of Banks. A letter by the Supervisor of Banks was received on June 22, 2021, addressed to the Bank's Board of Directors, in the matter of principles for determination of the terms of office of the chairman of the board of a bank having no core control interest, and with respect to the qualifying terms for the appointment of a director of a banking corporation having no core control interest (lack of affinity). Among these, maintaining the principle according to which the duties and authority of the chairman of the board shall not deviate from the duties and authority bestowed upon him by law, and that the organs that approve the terms of office must verify that the compensation components (including all rights and duties relating to them) do not create an affinity or impair the independence of the chairman of the board. It is further emphasized that the need to establish the status of the chairman of the board and to segregate him from the Management of the bank, including by means of determining compensation in relation to the other members of the board of directors (and according to Proper Conduct of Banking Business Directive No. 301A), is of double importance in a banking corporation having no core control interest. On April 10, 2022, the Supervisor of Banks also published amendments to Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors and Proper Conduct of Banking Business Directive No. 301A in the matter of compensation – the instructions have been modified according to the legislation requirements applying to chairmen of boards of banking corporations in general and of banking corporations having no core control interest in particular. In addition, instructions have been stated relating to the duties of the chairman of the board and the time resources required for the fulfillment thereof. Amendment of the instructions is intended to allow, inter alia, a banking corporation having no core control interest to pay the chairman of the board appropriate compensation, on condition that this would not create affinity or impair his independence as regards the banking corporation.

Companies Bill (amendment No. 37) – Corporate governance in public corporations that have no controlling shareholder (5783-2023). On July 12, 2023 the Bill was tabled before the Knesset for its first reading. The proposed Bill intends to amend the Companies Law in a manner that would suit the existing corporate governance rules to corporations having a decentralized structure of ownership. Within the framework of the Bill it is proposed, inter alia, to amend the definition of "controlling shareholder" so that a person holding 25% or more of a certain class of means of control in the corporation would be considered as controlling this public corporation. Also proposed are different changes in authority and composition of committees of boards of directors, such as the audit committee, the compensation committee and appointments committee, so that the majority of their members should comprise of independent directors.

Proposal for the amendment of Regulations regarding diversity in membership of boards of directors of reporting corporations, of trust funds and of large portfolio management corporations. In its meeting of February 28, 2023, the Plenum of the Securities Authority approved a proposal for the amendment of Regulations with respect to gender diversity in boards of directors of reporting corporations, of trust funds and of large portfolio management corporations. Within the framework of the proposal, it is proposed to impose a duty of disclosure regarding gender diversity in boards of directors as well as formation of policy with respect to diversity of the human capital.

Amendment of Proper Conduct of Banking Business Directive No. 312 – Business of a banking corporation with related parties. The Amendment to the Directive was published on July 3, 2023. Within the framework thereof, the Supervisor of Banks reduced the regulatory burden applying to banking corporations with respect to anything related to business with persons and entities defined as "related". Inter alia, the Amendment applies the exception to the definition "related party", so that a corporation in which a bank does not have a material interest or control, shall not be considered as a "related party". With respect to a banking corporation that is controlled by a bank, exemption from obtaining approval of the Audit Committee was granted to all types of transactions with companies providing services solely to the bank. Also removed was the duty to submit to the Supervisor of Banks the list of related parties. The Amendment took effect on June 29, 2023.

Draft of the Companies Regulations (Instructions Regarding Derivative Action and Derivative Defenses), 5783-2023. On August 14, 2023, the Ministry of Justice published a draft of the regulations governing instructions in connection with the legal procedures in derivative action proceedings and their conduct: the manner of submitting an application for approval of a derivative claim and the response thereto; the manner of submitting an application for disclosure of documents; the arrangement of a situation in which a number of similar applications are filed; the possibility of holding a preliminary hearing for the in limine dismissal the action in the relevant circumstances; and the arrangement of situations in which an application for withdrawal of a derivative action is filed. In addition, it is proposed in the draft regulations that the Director of Courts maintain a register of derivative actions, which will be available for public inspection, and it is also proposed to make it obligatory to publish various notices during the derivative action. It is also proposed to provide the courts with tools for supervising the establishment of special actions committees, along with the possibility of appointing an expert on behalf of the court to examine the factual and legal grounds for the action.

U.S. Legislation

As owners of a U.S. bank, IDB Bank, the Bank is subject to a number of U.S. legislation provisions, which apply to entities, and companies related to them, and which have banking operations in the U.S., whether as a bank or as a branch office.

Within the framework of these provisions, significant exceptions have been determined with respect to non U.S. banking entities, such as the Bank, so that the regulation under these provisions relating to operations and investments, applies mostly to the said operations and investments of the bank in the U.S..

The operations of the Bank conform to the U.S. legislation provisions, to the extent that these apply to its operations, including conforming to the restriction imposed on the Bank under the Volcker Rule, enacted as part of the U.S. Dodd Frank reform.

Subject to certain exceptions the Volker Rule includes prohibition of proprietary trading and investment and sponsoring operations in private equity funds of certain types.

Following amendments made to the Dodd Frank reform, the Bank, including its subsidiaries, is no longer subject to enhanced prudential standards determined by the Dodd Frank reform.

The amendments to the Volcker Rule, are in effect from January 1, 2020, are expected to be applied as from January 1, 2021. The purpose of these amendments is to simplify, clarify and modify the provisions of the law, on the basis of experience gathered since its enactment, while maintaining the purpose of this legislation. The amendments are not expected to affect the Bank's operations and even allow for certain mitigating factors in the operations of the Bank concerning US parties.

In addition, a series of amendments to the Law, which became effective on October 1, 2020, relates to limitations detailed in the Law regarding self operations by financial institutions and regarding investment and sponsoring activities for particular funds, with a view of preventing speculative activities by financial institutions and maintaining their stability. The amendments exclude from the limitations stated in the Law certain classes of funds, amend existing exceptions, and exclude the prohibition of providing credit to certain funds, with a view of simplifying existing rules and compliance therewith, defining the exterritorial effectiveness of the Law, and permitting the activity of funds that do not have the risk characteristics, which the original Law intended to deal with.

The Bank is studying these changes and their consequences, if there are, on the Discount Group.

The US Congress passed on January 1, 2021, an amendment to the National Defense Authorization Law, within the framework of which was also enacted the Money Laundering Prohibition Law 2020, which establishes a wide change in the prohibition of money laundering acts and the campaign against the financing of terror in the US. The Bank and MDB both hold correspondents accounts with IDB Bank. Inter alia, an amendment entered into effect, which widens the power of the US Authorities to demand documentation from foreign banks having correspondent accounts in the US. This power is exercisable with respect to any interrogation of violations of the Federal Criminal Law, to civil forfeiture proceedings and to any investigation under the prohibition of money laundering laws, even where the

correspondent account had not been used for the potential investigated violation. Additional amendments to the Law shall apply to banks operating in the US and to their customers, and are relevant to the compliance activity of IDB Bank with respect to the prohibition of money laundering and the finance of terror.
On January 1, 2024, rules entered into effect that will require US and foreign companies operating in the United States to report to the US financial information agency, FinCEN, regarding the company's beneficiaries (The Corporate Transparency Act).
New restrictions in the United States on foreign financial institutions against the backdrop of the Russia-Ukraine War. On December 22, 2023, the President of the United States signed an amendment to Executive Order 14024, which imposes sanctions on Russia. The amendment focuses on the activity of foreign financial institutions (FFI) with Russia. Under the order, foreign banking corporations are prohibited from conducting or facilitating "significant transactions" for or for the benefit of a designated financial institution in connection with the fields of technology, defense, construction and other areas specified in the order. In addition, banking corporations are prohibited from conducting or facilitating "significant transactions" or providing services related to "Russia's military-industrial base" involving the supply of products from categories specified in the order. The aforementioned prohibitions apply to all types of currencies. A foreign bank's failure to comply with the provisions of the order could lead to that bank becoming a Specially Designated National (SDN) in the United States, with which trade will be significantly restricted, and/or to the bank being prohibited from opening accounts in the United States or to imposing stringent conditions on their management. The amendment is expected to have a direct impact on the banking system, insurance companies and other financial institutions in Israel.

Additional Legislation Matters

Credit Data Law, 5776-2016

The Law was published on the Official Gazette on April 12, 2016. The Law is intended to regularize a central credit data base in Israel, with a view of increasing competition in the retail credit market. According to the Law, the Bank of Israel is to establish and manage a central credit data base. Data would be assembled from sources determined in the Law and including banking corporations, would be maintained and transferred to credit offices by the Bank of Israel. The credit offices would process the data and pass it on, among others, to the providers of credit according to the regulations stated in the Law. On March 4, 2021, the Credit Providers Regulations (Amendment), 2021 were published, thereby complimenting the provisions of the Credit Providers Law and outlining the supporting provisions in relation to arrangements not included in the Law. Following the publication of the Law, further regulations have been published intended to supplement the regulations stated in the Law, as well as the setting out of supporting regulations with respect to specific arrangements which are not regulated by the Law itself. For the purpose of implementing the Law, the Bank of Israel has taken measures to establish a system for sharing credit information, which includes setting up a central credit database.
It is noted, that providing of detailed data regarding Bank customers may expose the Bank to various claims, including customer arguments regarding the quality of the data in certain cases. The Bank is making timely preparations for the delivery of the data, according to the Bank of Israel instructions, and acts to improve such data, where required (for details regarding a lawsuit together with an application for its approval as a class action suit, regarding the implementation of the Credit Providers Law, see Note 26 C to the financial statements as of December 31, 2022, section 12.5).
The Credit Data (Amendment No. 4) Bill, 5782-2021. In June 2023, an updated version of the law memorandum was published by the government, in preparation for its approval by the Ministerial Committee for Legislation. Among other matters proposed within the framework thereof, the amendment will make it possible to conduct a complete credit underwriting examination for the customer over all his credit activity, and not at the level of a single transaction level as is the case today.

Payment Services Law, 5779-2019

The Law entered into effect in 2020. The Law amalgamates the majority of the "payment services" that are currently provided and that will be provided in the future to the general public (payers, on the one hand, and beneficiaries – the recipient of the payment, on the other hand) by "providers of payment services", including the banks, the credit card companies, off-banking operators of advanced payment applications, etc. The Law prescribes consumer regulation which will apply uniformly (subject to the secondary legislature of each regulator) to all the providers of payment services in the market.
The Bank acted to implement the provisions of the Law for its operations, inter alia, by way of updating agreements with customers, operational preparations, updating procedures and work processes.
The Ministry of Justice published on September 30, 2021, an opinion regarding the responsibility for the misuse of payment means in cases of impersonation as a provider of payment services. The opinion extends the limits of responsibility of providers of payment services in case of misuse of means of payment, so that in the event that a customer had delivered to an imposter, presenting himself as a provider of payment services, the essential component of the means of payment, the customer would be entitled to the protection of the responsibility arrangement stated in Section 24 of the Law, including limited liability.
Within the framework of the Regulation of Engagement in Payment Services and Payment Initiative Law, 5783-2023 ("the Engagement Regulation Law"), an indirect amendment to this law was made in order for it to conform to the Engagement Regulation Law. The amendment will take effect on June 6, 2024.

Customer Protection Law (Amendment No. 57) (Human professional response on the automatic answering service), 5778-2018

On July 25, 2018, the Amendment was published in the Official Gazette. The subject matter of the Amendment requires businesses that operate a phone call service that includes an automatic call routing system, to enable customers to transfer to a human voice response already at the first menu of the conversation and limiting the waiting time for a human response, as regards certain matters (treatment of failure, account information and termination of engagement) to six minutes. This requirement takes effect by way of an amendment of the Banking Law (Customer service).
Draft Banking Order (Dormant deposits), 5766-2000. The Banking Supervision Department is examining the replacement of the existing order with a new order that will include changes in relation to the investment channels of inactive deposits.
Position of the Commission for Equal Rights of Persons with a Disability from December 1, 2022. The position of the Commission is that reports filed by public companies constitutes information with regard to a public service and, as such, there is an obligation to make them accessible. The obligation to make the information accessible falls on the reporting corporations. The Israel Securities Authority and TASE are the owners of the platform on which the reports are published and are therefore required to make the platform accessible and to provide an accessible infrastructure. The Commission will begin enforcing the accessibility obligations in relation to such reporting from April 1, 2023. On February 8, 2023, the Israel Securities Authority published an announcement that the Commission had informed it that reporting corporations are also able to publish on MAGNA reports that have not been made accessible, and to fulfill the accessibility reporting requirement by means of referencing a link to an identical accessible report that will appear on the Internet website of the reporting corporation.
Amendment No. 23 to the Equal Rights to Persons with a Disability Law. The Amendment was published in the Official Gazette on July 13, 2022, with the aim of improving the enforcement abilities of the Commissioner of Equal Rights to Persons with a Disability. As part of this, the Commission's powers to file an action on behalf of a person with disabilities, involving accessibility and discrimination in a public place and in public service, have been expanded; supervisory authority and the Commission has been granted powers to impose monetary sanctions in the event of violation of the accessibility provisions, while the extent of the financial sanctions depends on the number of violations and the size of the debtor. Additional sanctions may be added to the sanctions amounts in cases of prolonged violation and recurring violation. Within the framework of Amendment 23, the Commission was also granted the additional powers of being able to give administrative notice, or an undertaking and guarantee.

The Regulations in the matter of Equal Rights for Persons with a Disability (Reduction of Monetary Sanction Amounts – Accessibility) were published on the Official Gazette on August 10, 2023. These Regulations allow the Commissioner on behalf of the Commission of equal rights for handicapped persons to reduce the amounts of monetary sanctions, which may be imposed on whoever violates the accessibility rules, at rates stated in the Regulations, under circumstances stated therein. Following the publication of the Regulations, the relevant part of Amendment No. 23 to the Equal Rights for Persons with a Disability Law has taken effect, allowing the Commission to impose monetary sanctions in cases of violation of accessibility obligations, in amounts stated in the Eighth Addendum to the Equal Rights for Persons with a Disability Law.

Additional Directives of the Supervisor of Banks

Proper Conduct of Banking Business Directive no. 368 - implementation in Israel of the open banking standard. The Directive was published on February 25, 2020, and details the requirements of the Bank of Israel from the banks and credit card companies regarding this field, with the aim of defining the infrastructure for open banking in Israel.

The dates for the entry into effect of the Directive are as follows: Implementation of open banking for information viewing purposes only – March 31, 2021; Conducting a single payment operation and information regarding credit cards – October 10, 2020; Information regarding savings deposits, deposits, credit and securities – March 31, 2022. Among other things, the Directive regulates the open banking duties applying to banking corporations and credit card companies. According to the Directive, the Boards of Directors and Managements are required to review and approve the policy for the management of open banking risks, and the Management is required to implement such policy and determine areas of responsibility and allocation of resources, including for the purpose of risk management. The Directive further deals with the manner in which consent of the customer and its cancellation is obtained, with the list of services that a bank would be obliged to provide to the customer and with data protection. The Directive entitles banks to act as consumers of data on condition that no conflict of interests with other activities of the bank, of corporations controlled by it or of corporations in the group to which it relates exists, as the case may be. The Directive also states in detail the manner in which customer inquiries are to be dealt with, and regulates who is required to respond and/or compensate the customer in case of flawed information.

For details regarding the preparations made by the Bank in the field of open banking, see the 2018 Annual Report (p. 355) and the Section "Technological improvements and innovation" above.

The Supervisor of Banks issued a circular on April 5, 2021, whereby the entry into effect of parts of the above Directive is being deferred for a number of months.

On February 23, 2022, the directive was amended, inter alia, to align it with the Provision of Financial Information Service Law, 5782-2021. On May 15, 2022, a further amendment was published that prescribes provisions with regard to prohibiting the receipt of benefits as required by the Financial Information Service Law, 2021-5782. On January 23, 2023, the final text was published of an amendment to the directive, which relates to providing access also to information concerning securities, and adds an appendix to the standard, which relates to the manner of implementing the technology of providing access to this information. Further revisions have also been made, inter alia, on matters relating to the level of availability, the correction of faults and the handling of inquiries, the manner in which the certificate is to be used and its safeguarding, and the Supervisor's approval for payment-initiated activity pursuant to the standard. Dates have been set for the amendment's implementation.

Amendment of Proper Conduct of Banking Business Directive No. 366 – reporting of technological failure events and cyber events. The Amendment was published on January 22, 2023, following the amendment to the Financial Information Service Law, which adds a reporting obligation with respect to a serious security event.

Draft Proper Conduct of Banking Business Directive on Information Technology Risks, Data Security and Cyber Protection. On February 28, 2023, the draft was published, dealing with three key issues: corporate governance in the field of information technology; Information technology risk management processes as part of the risk management process and business continuity; Data security risk management processes.

The Banking Supervision Department clarifies within the draft that information technology risks, including data security risks, may constitute a significant stability risk for the banking corporation and jeopardize its continued existence, and therefore, the banking corporation is expected to adequately safeguard its information assets and to implement an organizational culture that promotes the management of information technology risks.

Proper Conduct of Banking Business Directive in the matter of measurement and capital adequacy. During December 2021, the Supervisor of Banks published Amendments to Proper Conduct of Banking Business Directive No. 203 in the matter of the standardized approach – credit risk, as well as promulgated new Proper Conduct of Banking Business Directives - No. 203A in the matter of treatment of counterparty credit risk, No. 204A in the matter of IRB approach – risk components, and No. 208A in the matter of value adjustment for credit risks. The Amendment was made in order to modify the Directives of the Supervisor to a work framework document, published by the Basel Committee, which incorporates and reedits the Standards dealing with the allocation of capital for derivative financial instruments. The update relates to the computation of the capital allocation for the activity in derivatives by a third party. Some of the amendments and the new directives entered into effect on July 1, 2022 and the remainder, due to the postponement of the application date of Directive No. 208A, have been postponed until January 2, 2025. The Bank is preparing for the implementation of the Amendments and Directives.

Letter of the Supervisor of Banks in the matter of disclosure of the cost of service – Part 11 of the full pricelist. On February 16, 2022, the Supervisor of Banks delivered to the Banks and to the credit card companies his position with respect to the interpretation of Part 11 of the full pricelist, as provided within the framework of public approaches and class actions. According to this position, expenses included in Chapter 11 of the full pricelist, relating to third party expenses, should reflect the "actual expenses" payable by the banking corporation to a third party in connection with the particular service offered to the customer. To the extent that the manner of computing the expense payable by the banking corporation to a third party is not uniform for each transaction or for each customer, the banking corporation has to find a way of reflecting to the customer in the pricelist the maximum actual expense relevant to the service in question. It is required to act in a similar manner also upon presentation of a price for a transaction under Section 26(a) of the Banking Rules (Service to customers) (Proper disclosure and delivery of documents), 5752-1992.

Letter of the Supervisor of Banks in the matter of "business regarding cryptographic assets" and Amendment of Proper Conduct of Banking Business Directive No. 310 in the matter of risk management. On February 26, 2023, the letter and the amendment to the directive were published, which prescribe that banks have to exercise extra care in considering operations in the crypto field, apply a new product process, check that the operation in question is included in the areas of operation permitted to banks, conduct a risk evaluation process and refer to the Supervisor of Banks with a detailed application prior to starting business regarding the new product, with requests for operations of banks in the crypto field being examined with the desired caution by the Banking Supervision Department.

Proper Conduct of Banking Business Directive No. 501 in the matter of management of the customers' service and support layout. The Directive that was published on March 26, 2023, establishes principles for the providing of adequate service to bank customers using the different service channels, including the Internet website, Application, Call Center, Chat with a banker, Automated Teller Machines, personal service at the branches, and more. The principles established by the Directive are: maintaining an optimal service and support layout, useful communication with the customers, avoidance of damage and deception, availability and quality all along the engagement period, customer adapted service and support and provision of service through various tracks. The Directive also establishes the duty of publishing details concerning the customer service and support layout, including details of all the services available on each of the service tracks, inter alia, concerning the termination of engagement, ways of fixing appointments and service-level agreements (SLA) regarding service and support for particular matters. Most of the sections of the Directive take effect one year from date of publication, except for several sections, which took effect three months from date of publication. One instruction (the duty of quarterly reporting the actual waiting time regarding each of the service channels) takes effect two years after publication date. Due to the Iron Swords War, the Banking Supervision Department has postponed by three months the date on which most of the amendment's clauses will take effect.

Amendment to Proper Conduct of Banking Business Directive No. 422 – Opening and Managing a Current Account with Credit Balances. On March 26, 2023, an updated version of the directive was published. Within the framework of the amendment, it is stated that no sweeping rules are to be prescribed to block a customer's activity on his account or prevention of basic payment means solely due to the customer belonging to a certain population group, and that every application should be assessed on its own merits, with discretion being exercised. In addition, the basic payment services stated in the directive have been broadened for which no unreasonable refusal should be made. It is prescribed that, generally, customers should be allowed to make payments and receive services and information on their accounts, including by means of E-Banking channels. The content of the directive has been broadened, beyond the management of a current account with a credit balance, to also include the management of a current account with a debit balance that does not exceed the approved credit facility on the account. Due to the "Iron Swords" War, the date for the directive to take effect has been postponed to June 26, 2024.

Amendment of Proper Conduct of Banking Business Directive No. 434 – joint accounts. The amended Directive, published on June 11, 2023, is intended to increase awareness of partners of a bank account to the existence of a clause regarding the surviving partner and its significance, to determine guidelines in the matter and to facilitate the handling by the surviving partner of existing liabilities under means of payment, which had been issued for the use of the deceased partner. In addition, the Amendment establishes the duty of a bank to increase awareness regarding the survival clause upon opening a joint account, and create proper control mechanisms to be established in internal proceedings. Due to the Iron Swords War, the updated directive (apart from one section), will take effect on the postponed date – September 11, 2024.

Proper Conduct of Banking Business Directive No. 473 – distribution of credit cards issued by entities engaged with a banking corporation in a distribution agreement. The Directive, published on June 29, 2023, states instructions within the framework of which, with respect to procedures for the distribution of credit cards in accordance with section 17 of the Banking Law (Customer service). The Directive relates to the terms of the distribution agreement, the manner of distribution, the details which the banking corporation is required to present to the customer, terms that would be considered unreasonable, and the manner of reporting to the Supervisor of Banks. The Directive takes effect on date of publication.

Draft of amendment to permit for the provision of certain banking services (under the Banking (Licensing) Law, 5741-1981). On September 28, 2023, the draft amendment was published, according to which the services that a banking corporation may provide to customers outside the physical confines of the branch will be expanded. The proposed permit will make it possible for basic banking services to be provided outside the physical confines of the branch to all customers, and all banking services to customers who have objective difficulty in getting to a branch, subject to formulating policy, procedures and work process, risk monitoring, analysis and control, and taking responsibility for damage to the customer. The proposed permit will be in addition to the existing option of providing banking services outside the physical confines of the branch to customers with financial eligibility.

Various instructions

Taking consumer measures in a changing financial environment. In his letter dated February 26, 2023, the Supervisor of Banks related to the changes in the interest and inflation environment that is causing a rise in household expenses. In his letter, the Supervisor expressed the expectation that the banking corporations would look at alternative ways for customers to meet their monthly repayments and that they would provide an appropriate, timely and professional response to customers' requests and needs, while providing comprehensive disclosure to customers about the short-term and long-term implications associated with these steps. At the same time, the supervisor clarified that it is expected that the banking corporations will continue to work to adapt the banking products and services to the customer's needs, with emphasis on the investment products at their disposal. Even prior to this letter, the Bank was set up to examine customers' needs, paying attention to the aforesaid changes, and to offer alternatives to customers wishing to change and adjust their repayments schedule, including in relation to mortgage borrowers. The Bank continues to work to adapt its banking products and services to customers' needs.

Position of the Bank of Israel in the matter of payments and activity of digital wallets. In a press release dated February 14, 2021, the Bank of Israel stated its position in view of developments in the field of payments and activity of digital wallets. According to the Bank of Israel position, the new initiatives in this field may encourage competition, develop the payments world and create value for the Israeli consumer; therefore the Bank of Israel does not consider it proper to curb the entities involved in the matter, provided, inter alia, that at this stage in the developments in the payments market, no use should be made of the data collected within the framework of the digital wallet, for the purpose of providing financial services or sale of other financial products to customers having a charge card issued for them by issuers who are not owners of the wallet service, and this until this issue in all its aspects, would be examined; as well as that in the case of an "open wallet", within a short period of time, there would be the possibility to hold numerous cards of different issuers, so that customers would be able, easily and conveniently, to make use of a number of cards of their own choice. Also to be examined is the limitation imposed on the two large banks by the Concentration Law, regarding cooperation initiatives in this field, in which the two large banks are involved. The Bank of Israel shall continue to follow developments in this field, and where required will act for appropriate regulation.

Legislation and regulation initiatives

The year 2023 was characterized by new legislative initiatives, including private bills, and the passing of new legislation, as well as in regularization relating to the Iron Swards War. The implementation of the various instructions requires, on more than one occasion, preparations involving the investment of resources, and sometimes it has a possible adverse impact on the income of banking corporations from various sources. The Bank expects that this state of affairs will also continue in the future. See above also, "Legal Risks" in Chapter "Risks Review" above.
Details regarding legislative initiatives and additional new Proper Conduct of Banking Business Directives (or draft Directives) were also provided in the chapters "Description of the Activity of the Group According to Segments of Operation – additional details", "Human Capital" above and in the Document "Disclosure according to the third pillar of Basel and additional information on risks" available for review on the Internet (including ESG Risks).

Taxation

General. The Bank and most of its subsidiaries in Israel are considered a financial institution under the Value Added Tax Law, 5735-1975, and as such are chargeable to payroll tax and to profit tax at the rate of 17.0% of the payroll expense and of the profit, respectively.

Special Payment for the Purpose of Achieving the Budget Objectives (Provisional Instruction) Bill, 5784-2024. For details, see Note 8 K to the financial statements.

Tax aspects of the Directive regarding impaired debts. An agreement was signed with the Tax Authority in February 2012, regarding the timing of the recognition for tax purposes of credit loss expenses recognized in the books according to the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowances for credit losses".

Among other things, the agreement states that with respect to large debts (over NIS 1 million), the allowance will be allowed as an expense, and in the event of a collection being made settling of accounts will be done with the tax authorities. With respect to small debts, the allowance will not be recognized as an expense, although actual write-offs will be recognized in the two years following the year in which the allowance was made. On July 9, 2017, the validity of the agreement was extended up to and including the 2020 tax year.

In addition, on July 9, 2017, an agreement was signed with the Israeli Tax Authority regarding the timing of the recognition for tax purposes of allowances in respect to housing loans. As part of this agreement, which is valid up to and including the 2020 tax year, it is prescribed, inter alia, that 65% of the closing balances in respect problematic debts regarding housing loans granted, and for which an allowance was first recorded on January 1, 2014, will be adjusted for tax purposes. The tax authority has not yet published new directives for 2021 and thereafter. At this stage, the Bank is continuing to act according to the old directives.

Tax aspects of the Directive regarding allowances for expected Credit Losses (CECL). In February 2024, an agreement in principle was signed with the Tax Authorities in the matter of the tax wise recognition of credit losses incurred in the years 2022-2026. This, in view of the change in accounting principles regarding this matter (CECL). The Bank has acted in accordance with the principles contained in the agreement that had been formed proximate to the signature.

A Qualified Intermediary (Q.I.) status. The Bank has been granted the status of Qualified Intermediary (QI), as defined by the U.S. Tax Authorities. The significance of this is that the Bank has entered into an agreement with the U.S. Tax Authorities, whereby it is entitled to withhold tax with regards to its customers' securities transactions.

Changes in global legislation regarding the prevention of tax offences. For details regarding changes in tax legislation in the United States – the FATCA legislation – and the Group's preparations to implement its provisions, see "exposure to cross-border risks" in the document "Disclosure according to the third pillar of Basel and additional information on risks".

For additional details regarding "taxation", see Note 8 to the financial statements.

Legal Proceedings

Material claims outstanding against the Bank and its consolidated subsidiaries are described in Note 26 C to the financial statements.

Additional Legal Proceedings

1. **Approach according to Section 198A of the Companies Law.** On December 14, 2016, the Bank received an approach headed "approach according to Section 198A of the Companies Law, 5759-1999 – request for clarifications and documents regarding the conduct of the Bank and of MDB regarding Australian customers, prior to the filing of a derivative action" (see Note 26 C to the financial statements as of December 31, 2020, section 11.3). The Bank responded to the approach on December 26, rejecting the request and the arguments raised in the action.
   On June 6, 2017, an application was filed with the Tel Aviv District Court for the disclosure of documents under Section 198A of the Companies Law, in which the Court was asked to instruct Discount Bank and MDB to deliver to the petitioner the documents named in the application, required by him in order to decide whether to file an application for approval of a derivative action or a derivative defense in the name of Discount Bank and/or MDB.
   On June 24, 2018, the power of a Court ruling was awarded to the agreement by the parties, according to which the application shall be struck off with no order for expenses, while securing an exclusive right for the Appellant to file anew a disclosure application under Section 198A of the Companies Law, and/or an application for approval of a derivative action, this within ninety days from date of the ruling and/or approval of a compromise arrangement within the framework of one or more of the proceedings being conducted against the Respondents in Australia.
   On February 6, 2020, an application for the disclosure of documents under Section 198A of the Companies Law was resubmitted to the Tel Aviv District Court. The application requests the Court to instruct Discount Bank and MDB to deliver documents listed in the application for perusal by the Plaintiff, in order to study the possibility of filing a request for approval of a derivative action or derivative defense on behalf of Discount Bank and/or MDB.
   The Bank and MDB filed on October 20, 2020 an application for the stay of proceedings regarding the application and alternatively for the deferral of the date for submission of their response. The Court fixed a hearing for March 3, 2021, in the presence of the parties, regarding the application for the stay of proceedings and has exempted the banks from providing a response, at this stage. During the hearing held on March 3, 2021, the Bank's position was admitted, and the proceedings were stayed by mutual consent. For details regarding the recommendations of the Committee, including its recommendation regarding reaching a settlement subject to the approval of the Court in this proceeding, and regarding the decision of the Bank's Board of Directors to adopt its recommendations, see above "Special and independent committee – proceedings in Australia". A date for an internal memo was set for April 14, 2024.
2. **Petitions for disclosure of documents under Section 198A of the Companies Law.** On December 22 and 23, 2020, two different petitions under Section 198A of the Companies Law were delivered to the Bank regarding the disclosure of documents prior to a derivative action concerning the proceedings described in Note 26 C section 10.1. The two petitions are identical in substance. The first petition was filed with the Haifa District Court while the second petition was filed with the Tel Aviv District Court. On January 11, 2021, the Supreme Court instructed that the hearing of the first petition be transferred to the Tel Aviv District Court and be consolidated there with the hearing of the second petition. Each of the Petitioners has filed a petition with the Tel Aviv district Court requesting to delete the competing request. At the hearing of the petitions held on May 2, 2021, the Court decided that the two Petitioners would file a unified petition within thirty days. The Petitioners had filed a consolidated petition. Hearing of the petition was delayed by consent of the parties.

3. On March 26, 2017, a claim was filed with the Central-Lod District Court, together with an application for its approval as a class action, against the Bank. In the application, it is alleged that the Bank charges customers with a correspondent fee, but it does not credit customers with benefits should any be received from the correspondent; It is stated that the total damages for all members of the group amount to more than NIS 2.5 million. Similar applications have been filed against MDB, as well as against Bank Hapoalim, Bank Leumi, Bank Mizrahi-Tefahot, Union Bank, and FIBI. On February 16, 2023, a decision was given approving the claims against all the banks to be conducted as class-actions. At the request of the banks, the District Court ordered on March 20, 2023, a stay of execution. On May 31, 2023, the Bank and MDB submitted to the Supreme Court their application for permission to appeal. On June 1, 2023, the Claimant against the Bank lodged an appeal against the decision for approval under the main argument that the application for approval should have been admitted also under the banking cause of action (and not only under the approved mission cause of action). On December 31, 2023, the Petitioner submitted his response to the application of the banks for permission to appeal, and on January 4, 2024, the banks submitted their response to the response of the Petitioner. In the hearing of the application for leave to appeal filed by the Bank and the appeal filed by the petitioner, which took place on January 8, 2024, and in accordance with the recommendation of the Court, the Petitioner withdrew from his Appeal, which has been dismissed. The Supreme Court also ordered the Attorney General to consider submitting a position on its behalf with respect to certain questions, by March 15, 2024, and that the parties would be entitled to relate to this position within 14 days of its submission.
4. An action together with an application to approve it as a class action suit was filed against the Bank on September 3, 2018, with the Central-Lod District Court. It is, inter alia, claimed in the application that upon the acquisition, redemption or sale of securities traded abroad, the Bank is entitled to charge the customer only with the amount actually paid to the third party who assisted the Bank in carrying out the said operations, and in relation to the specific service and customer, and to the extent that the Bank had received monetary refunds from such third parties, the Bank has to reimburse the customer. Similar applications have been filed against Hapoalim Bank, Union Bank and Mizrahi Tefahot Bank. On June 27, 2023, the Court ruled that the action shall be conducted as a class action against the Bank. On March 17, 2023, the District Court issued, at the request of the Bank, a stay of execution order. On November 2, 2023, the Bank filed an application for permission to appeal to the Supreme Court. In a hearing held on January 7, 2024, the Supreme Court ordered the respondent in the application for leave to appeal to present his position regarding the continuation of the proceedings and, on January 14, 2024, the respondent announced that, in its opinion, the Bank should not be granted leave to appeal. In its ruling of January 16, 2024, the Court ruled that the application for leave to appeal filed by the Bank requires a response. On February 7, 2024, the Respondent submitted a response to the application for permission to appeal, and the Bank submitted on February 28, 2024, its response to the above response.
5. An action against the Bank was filed with the District Court Central-Lod on March 16, 2020, together with an application for approval of the action as a class action suit. It is, inter alia, claimed in the application that the interest charged by the Bank to customers belonging to certain classes with respect to credit facilities, is at a higher rate than the rate of interest for these classes published by the Bank from time to time. The parties participated in mediation proceedings, and on May 24, 2023, submitted to the Court an application for approval of a compromise arrangement. On October 29, 2023, the Court approved the application for approval of the compromise arrangement, giving it the power of a Court verdict.
6. **An application for disclosure of documents for the purpose of considering the filing of a derivative suit in the matter of violation of the exemption provisions regarding cross-clearing.** On September 13, 2022, an application was submitted to the Economic Department of the Haifa District Court, under Section 198A of the Companies Law, 5759-1999, against ICC, against the Bank and against Diners. The application alleges that on September 12, 2022, it was published on the website of the Competition Authority that ICC had signed on an agreed Order, in which it was obliged to pay an amount of NIS 10 million. See below "Proceedings regarding authorities" (Section 4). The appellant claims that the readiness of ICC to pay the amount of the agreed Order stems from violation of the exemption provisions regarding cross-clearing. Hearing of the application for disclosure was held on September 27, 2023, during which the Court suggested a procedural outline. On December 3, 2023, the parties announced that they had not reached an accord that would make it unnecessary to continue hearing the proceeding and, following the Court's decision, on December 25, 2023, the Bank and ICC submitted their response to the application.

The date for the hearing was set for March 20, 2024, and the date for the evidentiary hearing, was set for April 21, 2024.

7. **Application for disclosure of documents under Section 198A of the Companies Law in the matter of compensation to senior officers of the Bank.** An Application against the Bank, under Section 198A of the Companies Law, 5759-1999, was submitted on March 28, 2023, to the Economic Department of the Tel Aviv District Court. It is, inter alia, argued in the application that the Bank had adopted a widened interpretation of the provisions of the Compensation of Officers of Financial Corporations Law (Special approval and disallowance for tax purposes of exceptional compensation), 5776-2016, thus violating the relevant directives of Proper Conduct of Banking Business, and that the required approvals for engagement with officers had not been obtained. Similar applications had also been submitted against two other banks. The Bank filed its response to the application on August 13, 2023. At the hearing on December 27, 2023, the parties announced that they intend to examine ways to make continuation of the proceeding unnecessary. The parties have to inform the Court of their position until March 13, 2024.
8. **Application for disclosure of documents under Section 198A of the Companies Law in the matter of an agreed Order regarding IDB Bank.** An application against the Bank was filed on July 16, 2023, with the Economic Department of the Tel Aviv District Court, under Section 198A of the Companies Law, 5759-1999. It is, inter alia, claimed in the application that on May 24, 2023, IDB Bank signed an agreed Order by the US authorities, according to which, the Bank undertakes to take action for the rectification of deficiencies and weaknesses regarding certain aspects in its compliance program, and harm, such as higher operating expenses, was caused as a result of this. See above "Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations" in section "International Operations Segment - Additional Details". On November 1, 2023, the Petitioner filed an application to determine a manner of delivery of pleadings to Respondents being foreign corporations, and on January 10, 2024, the Bank submitted its answer to this application. On February 12, 2024, the Petitioner submitted an agreed application for his withdrawal from the application.
9. A legal suit was submitted on April 21, 2020 to the Tel Aviv District Court together with an application for approval of the suit as a class action suit against the Bank and against three additional Banks. Inter alia, it is argued in the application that the banks charge commissions in respect of foreign currency transfers between accounts of customers in Israel, in amounts exceeding those stated in the pricelists and also charge the customers with different expenses. On September 7, 2023, the Court ruled for the conduct of the suit as a class action suit.

For additional details regarding different legal proceedings, see Note 26 C, sections 11 and 12.

Significant Legal Proceedings settled in 2023

1. For details regarding an application for approval of a legal action as a class action, regarding which a ruling was given on August 21, 2022, dismissing the application for approval, and whereas on November 13, 2022, an appeal was filed with the Supreme Court against the said ruling, see Note 26 section 9.4 to the financial statements.
2. For details regarding an application for approval of an action as a class action, for which on March 9, 2023 a ruling was issued confirming the compromise arrangement between the parties, see Note 26, section 10.8, to the financial statements as of December 31, 2022 (pp. 240-241).
3. For details regarding an application for approval of an action as a class action, which on October 29, 2023, the Court approved the application for approval of a compromise arrangement submitted, see above "Additional Legal Proceedings", section 5.
4. For details regarding an action and an application for its approval as a class action, in respect of which a compromise agreement had been signed and presented for approval of the Court, though not as yet approved, following which the parties submitted an amended compromise arrangement to the Court, see Note 26 C section 9.1.
5. For details regarding an action and an application for its approval as a class action, in respect of which, an application for approval of a compromise agreement was filed on September 4, 2023, see Note 26, section 10.6, to the financial statements.

Proceedings regarding Authorities

1. For details regarding various proceedings by the Competition Commissioner and the Competition Tribunal concerning the Group's activities in the credit card field, see Note 36 A 1 and 2 to the financial statements.
2. **Demand for data – The Competition Authority.** In June 2022, the Bank received a request for data relating to an investment transaction that a subsidiary performed in another company. In February 2023, a further demand for data was received on this subject. An additional demand for data was received in September 2023, concerning the investment transaction and the putting into action of the rights acquired by power of the transaction.
   Following the demand for data sent in 2022 regarding deposits, in March, in May and in August 2023 Discount Bank and MDB received requests for further data regarding banking products, deposits and debit balances. In January 2024, a further data requirement was received, which focuses on credit for housing purposes. For details regarding Starting a process of consultation regarding declaration of a centralized group in the banking field, see above "Legislation and Supervision".
3. **Privacy Protection Authority.** The Authority announced on February 16, 2020, the starting of a regulatory administrative process under the Privacy Protection Law, for the examination of circumstances of the PayBox event (see the 2020 Annual Report, p. 97). On October 1, 2020, the Authority sent the Bank a letter determining allegedly breach of the Privacy Protection Law. The Bank submitted its response in writing on December 9, 2020 and had requested an additional oral hearing. The Privacy Protection Authority has consented to the request of the Bank to hold a viva voce hearing. The hearing was held on October 21, 2021. The Authority informed the Bank on April 16, 2023, that it had admitted certain of the arguments raised by the Bank in the hearing being held, but stated that, as opposed to the position of the Bank, certain of the Privacy Protection Regulations (Data protection), 5777-2017, had been violated. On April 30, 2023, the Bank responded to the Authority, stating that in the opinion of the Bank the Authority's standpoint and arguments are erroneous and requesting reconsideration of the Authority's decisions. On June 4, 2023, the Authority responded that after examining the arguments submitted by the Bank, it does not change its said decision of April 16, 2023.
4. On June 14, 2023, the Bank received from the Privacy Protection Authority a demand for information and documentation relating to a security event that had occurred in the premises of a provider of legal services to the Bank, who holds information obtained from one of the data bases of the Bank, for which the Bank reported to the Authority on November 6, 2022. The Bank has responded to this demand, received within the framework of an administrative supervision procedure instigated against the Bank by the Authority, following the said report.
5. **Competition Authority - Agreed Order.** On February 6, 2020, ICC received a demand for information from the Competition Authority, under Section 46(b) of the Economic Competition Law, 5748-1988, with respect to trading houses receiving from ICC or from a related entity, debit card clearing services. In continuation thereof and following the data that had been delivered, further demands were received, this within the framework of an investigation that was conducted by the Authority in the matter. ICC provided the required data.
   On September 12, 2022, ICC informed the Competition Authority of its consent for the payment of NIS 10 million, to the State's Treasury, within the framework of an agreed Order, this according to Section 50B of the Law. Subject to the payment of the said amount, the Competition Commissioner would not take any enforcement actions against ICC or against anyone on its behalf, with respect to events that had taken place in the period from 2018 to 2020, in which, as alleged, beneficial commercial terms regarding clearing services for charge cards of the "Diners" brand, had been offered to customers who would purchase or would continue to purchase from ICC clearing services for charge cards of other brands.
   It is clarified that there is nothing in the agreed Order or in ICC's signature thereon, that denotes a statement, admission or consent on the part of ICC, or on the part of anyone on its behalf, regarding violation of the Law, of decisions of the Commissioner, or of any other provision of the law in any way whatsoever.
   On July 12, 2023, the Competition Tribunal approved the agreed order.
6. **Notice regarding the removal of pledges.** On July 4, 2022, the Bank and MDB received a notice pursuant to Section 8A(a) of the Banking Ordinance with regard to repeated deficiencies in the removal of pledges following the settlement of the charges, for which the pledges were registered. The banks have taken the necessary steps to comply with the requirements specified in the notice.
7. **Imposition of monetary sanction.** On February 6, 2023, the Bank was informed of the decision of the Supervisor

of Banks to impose upon the Bank two monetary sanctions in a total amount of NIS 1.2 million, this under Section 14H(a)(1) of the Banking Ordinance, 1941, and according to the Banking Rules (Rates of maximum reduction of monetary sanction amounts), 5771-2011. The monetary sanctions had been imposed on the Bank for violation of the provisions of sections 25 and 26 of Proper Conduct of Banking Business Directive No. 450 in the matter of "Debt collection procedures", the subject matter of which was reports to the Debt Execution Office regarding amounts collected not by means of the Office, and respecting arrangement with customers regarding collections on account of the debt, all as detailed in an Immediate Report dated February 7, 2022 (Ref. No. 2023-01-014925), the details included therein in this matter are presented hereby by way of reference.

8. **Notices of intention to impose sanctions under the Banking Ordinance and Prohibition of Money Laundering Law.** On June 8, 2023, the Bank received two notices by the Supervisor of Banks of his intention to impose sanctions upon the Bank. One notice relates to the intention to impose a sanction in the amount of NIS 1 million, under the Banking Ordinance, in respect of violation of two instructions stated in Proper Conduct of Banking Business Directive No. 411, on management of risks relating to prohibition of money laundering and the finance of terror. The second notice relates to the intention to impose a sanction (with no amount stated) under the Prohibition of Money Laundering Law, in respect of violation of instructions stated in the Prohibition of Money Laundering Order. The alleged violations stated in the notices relate to the updating by the Bank of the "declared persons" lists, updating of the "know your customer" procedures regarding accounts in respect of which seizure orders had been received, and the examination of the address field vis-à-vis the lists of "declared persons" upon transfer of funds. Following the arguments presented by the Bank within the framework of a hearing that had been held, the Supervisor of Banks informed of the decision not to impose upon the Bank a sanction by power of the Banking Ordinance. As to the second sanction notice, by power of the Money Laundering Prohibition Law, an oral hearing had been held with the Bank submitting written supplemental arguments to the Sanction Committee.
9. For details regarding proceedings concerning certain matters relating to IDB Bank's compliance plan, see above "Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations" in section "International Operations Segment - Additional Details".

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Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses

Part "A" - Average balances and interest rates - assets

	2023			2022			2021		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:									
Credit to the public:[3]									
In Israel	214,741	14,237	6.63	191,730	8,875	4.63	165,628	6,090	3.68
Abroad	30,269	2,234	7.38	28,146	1,301	4.62	24,842	781	3.14
Total credit to the public	**245,010**	***16,471**	**6.72**	**219,876**	***10,176**	**4.63**	**190,470**	***6,871**	**3.61**
Credit to the Government:									
In Israel	2,974	169	5.68	2,523	86	3.41	3,142	63	2.01
Total credit to the Government	**2,974**	**169**	**5.68**	**2,523**	**86**	**3.41**	**3,142**	**63**	**2.01**
Deposits with banks:									
In Israel	6,319	254	4.02	4,796	40	0.83	3,246	9	0.28
Abroad	204	5	2.45	258	2	0.78	507	–	[11]–
Total deposits with banks	**6,523**	**259**	**3.97**	**5,054**	**42**	**0.83**	**3,753**	**9**	**0.24**
Deposits with central banks:									
In Israel	43,627	1,955	4.48	49,866	668	1.34	35,526	36	0.10
Abroad	1,470	69	4.69	1,056	12	1.14	730	1	0.14
Total deposits with central banks	**45,097**	**2,024**	**4.49**	**50,922**	**680**	**1.34**	**36,256**	**37**	**0.10**
Securities borrowed or purchased under agreements to resell:									
In Israel	1,037	45	4.34	1,278	12	0.94	1,243	[11]–	–
Total securities borrowed or purchased under agreements to resell	**1,037**	**45**	**4.34**	**1,278**	**12**	**0.94**	**1,243**	**-**	**-**
Bonds held for redemption and available for sale:[4][5]									
In Israel	35,619	1,108	3.11	31,798	455	1.43	32,850	337	1.03
Abroad	10,611	313	2.95	9,358	186	1.99	8,963	142	1.58
Total bonds held for redemption and available for sale	**46,230**	**1,421**	**3.07**	**41,156**	**641**	**1.56**	**41,813**	**479**	**1.15**
Trading bonds:[5]									
In Israel	6,649	281	4.23	1,689	42	2.49	1,528	12	0.79
Abroad	74	4	5.41	70	1	1.43	67	1	1.49
Total trading bonds	**6,723**	**285**	**4.24**	**1,759**	**43**	**2.44**	**1,595**	**13**	**0.82**
Other assets:									
Abroad	916	38	4.15	813	20	2.46	698	19	2.72
Total other assets	**916**	**38**	**4.15**	**813**	**20**	**2.46**	**698**	**19**	**2.72**
Total interest bearing assets	**354,510**	**20,712**	**5.84**	**323,381**	**11,700**	**3.62**	**278,970**	**7,491**	**2.69**
Debtors of credit card operations	7,946			7,302			8,878		
Other non-interest bearing assets[6]	32,255			28,986			21,376		
Total assets	**394,711**			**359,669**			**309,224**		
Of which: Total interest bearing assets attributable to operations abroad	43,544	2,663	6.12	39,701	1,522	3.83	35,807	944	2.64
* Fees and commissions included in interest income from credit to the public		324			309			319	

For footnotes see page 449.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "B" – Average balances and interest rates – liabilities and equity

	2023			2022			2021		
	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:									
Deposits from the public:									
In Israel - On call	35,481	918	2.59	(10)32,989	251	0.76	(10)21,600	5	0.02
In Israel - Time deposits	156,741	6,052	3.86	118,216	1,703	1.44	95,634	418	0.44
Total deposits from the public in Israel	**192,222**	**6,970**	**3.63**	**151,205**	**1,954**	**1.29**	**117,234**	**423**	**0.36**
Abroad - On call	22,579	979	4.34	21,536	262	1.22	20,241	70	0.35
Abroad - Time deposits	8,643	368	4.26	5,951	89	1.50	3,686	14	0.38
Total deposits from the public outside Israel	**31,222**	**1,347**	**4.31**	**27,487**	**351**	**1.28**	**23,927**	**84**	**0.35**
Total deposits from the public	**223,444**	**8,317**	**3.72**	**178,692**	**2,305**	**1.29**	**141,161**	**507**	**0.36**
Deposits from the Government:									
In Israel	55	2	3.64	102	1	0.98	216	2	0.93
Abroad	69	3	4.35	70	1	1.43	68	(11)-	-
Total deposits from the Government	**124**	**5**	**4.03**	**172**	**2**	**1.16**	**284**	**2**	**0.70**
Deposits from central banks:									
In Israel	7,681	5	0.07	9,731	7	0.07	8,300	6	0.07
Total deposits from central banks	**7,681**	**5**	**0.07**	**9,731**	**7**	**0.07**	**8,300**	**6**	**0.07**
Deposits from banks:									
In Israel	5,617	250	4.45	3,599	62	1.72	3,615	18	0.50
Abroad	1,484	34	2.29	1,570	23	1.46	1,198	11	0.92
Total deposits from banks	**7,101**	**284**	**4.00**	**5,169**	**85**	**1.64**	**4,813**	**29**	**0.60**
Securities lent or sold under agreements to repurchase:									
In Israel	8,983	535	5.96	1,599	65	4.07	-	-	-
Abroad	136	7	5.15	-	-	-	41	(11)-	-
Total securities lent or sold under agreements to repurchase	**9,119**	**542**	**5.94**	**1,599**	**65**	**4.07**	**41**	**-**	**-**
Bonds and subordinated debt notes:									
In Israel	15,418	623	4.04	13,089	543	4.15	11,170	417	3.73
Total bonds and subordinated debt notes	**15,418**	**623**	**4.04**	**13,089**	**543**	**4.15**	**11,170**	**417**	**3.73**
Other liabilities:									
In Israel	69	-	-	79	(11)-	-	66	1	1.52
Abroad	1	-	-	-	-	-	-	-	-
Total other liabilities	**70**	**-**	**-**	**79**	**-**	**-**	**66**	**1**	**1.52**
Total interest bearing liabilities	**262,957**	**9,776**	**3.72**	**208,531**	**3,007**	**1.44**	**165,835**	**962**	**0.58**
Non-interest bearing deposits from the public	72,596			(10)100,627			(10)100,145		
Creditors for credit card operations	12,469			11,817			11,230		
Other non-interest bearing liabilities(7)	17,691			13,926			11,333		
Total liabilities	**365,713**			**334,901**			**288,543**		
Total capital resources	**28,998**			**24,768**			**20,681**		
Total liabilities and capital resources	**394,711**			**359,669**			**309,224**		
Interest spread		**10,936**	**2.12**		**8,693**	**2.18**		**6,529**	**2.11**
Net return on interest bearing assets:(8)									
In Israel	310,966	9,664	3.11	283,680	7,546	2.66	243,163	5,680	2.34
Abroad	43,544	1,272	2.92	39,701	1,147	2.89	35,807	849	2.37
Total net return on interest bearing assets	**354,510**	**10,936**	**3.08**	**323,381**	**8,693**	**2.69**	**278,970**	**6,529**	**2.34**
Of which: Total interest bearing liabilities attributable to operations abroad	32,912	1,391	4.23	29,127	375	1.29	25,234	95	0.38

For footnotes see page 449.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "C" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	2023			2022			2021		
	Average balance(2)	Interest income (expense)	Rate of income (expense)	Average balance(2)	Interest income (expense)	Rate of income (expense)	Average balance(2)	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:									
Total interest bearing assets	253,958	14,970	5.89	235,755	7,752	3.29	202,133	5,160	2.55
Total interest bearing liabilities	(157,038)	(4,723)	(3.01)	(10)(134,231)	(1,178)	(0.88)	(10)(110,071)	(309)	(0.28)
Interest spread		**10,247**	**2.88**		**6,574**	**2.41**		**4,851**	**2.27**
CPI-linked shekels:									
Total interest bearing assets	30,816	1,693	5.49	25,024	1,826	7.30	21,909	1,055	4.82
Total interest bearing liabilities	(14,012)	(534)	(3.81)	(12,640)	(714)	(5.65)	(10,798)	(468)	(4.33)
Interest spread		**1,159**	**1.68**		**1,112**	**1.65**		**587**	**0.49**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	26,192	1,386	5.29	22,901	600	2.62	19,121	332	1.74
Total interest bearing liabilities	(58,995)	(3,128)	(5.30)	(32,533)	(740)	(2.27)	(19,732)	(90)	(0.46)
Interest spread		**(1,742)**	**(0.01)**		**(140)**	**0.35**		**242**	**1.28**
Total operations in Israel:									
Total interest bearing assets	310,966	18,049	5.80	283,680	10,178	3.59	243,163	6,547	2.69
Total interest bearing liabilities	(230,045)	(8,385)	(3.64)	(179,404)	(2,632)	(1.47)	(140,601)	(867)	(0.62)
Interest spread		**9,664**	**2.16**		**7,546**	**2.12**		**5,680**	**2.07**

For footnotes see next page.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "D" – Analysis of changes in interest income and expenses

	2023 Compared to 2022			2022 Compared to 2021		
	Increase (decrease) due to change[9]			Increase (decrease) due to change[9]		
	Quantity	Price	Net change	Quantity	Price	Net change
	In NIS millions					
Interest bearing assets:						
Credit to the public:						
In Israel	1,526	3,836	5,362	1,208	1,577	2,785
Abroad	157	776	933	153	367	520
Total credit to the public	**1,683**	**4,612**	**6,295**	**1,361**	**1,944**	**3,305**
Other interest bearing assets:						
In Israel	169	2,340	2,509	204	642	846
Abroad	56	152	208	11	47	58
Total other interest bearing assets	**225**	**2,492**	**2,717**	**215**	**689**	**904**
Total interest income	**1,908**	**7,104**	**9,012**	**1,576**	**2,633**	**4,209**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	1,487	3,529	5,016	[10]439	[10]1,092	1,531
Abroad	161	835	996	45	222	267
Total deposits from the public	**1,648**	**4,364**	**6,012**	**484**	**1,314**	**1,798**
Other interest bearing liabilities:						
In Israel	360	377	737	116	118	234
Abroad	1	19	20	5	8	13
Total other interest bearing liabilities	**361**	**396**	**757**	**121**	**126**	**247**
Total interest expenses	**2,009**	**4,760**	**6,769**	**605**	**1,440**	**2,045**
Net interest income	**(101)**	**2,344**	**2,243**	**971**	**1,193**	**2,164**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment for which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of bonds held to maturity was deducted (added) the average balance of profits (losses) included in equity as part of accumulated other comprehensive income in the item "Adjustments regarding the presentation of available-for-sale securities at fair value" for bonds transferred from the available-for-sale portfolio, in the amount of NIS 373 million; 2022 - NIS 208 million.

(5) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) on available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments for available-for-sale securities according to fair value" in the amount of NIS (8) million and NIS (1,592) million, respectively; 2022 – NIS (4) million and NIS (721) million respectively.

(6) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.

(7) Including derivative instruments.

(8) Net return – net interest income divided by total interest bearing assets.

(9) The quantitative impact has been computed by multiplying the interest spread by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest spread between the periods.

(10) Recalculated following the reclassification of the average balance – see Note 19 A to the financial statements.

(11) An amount lower than NIS 1 million.

Appendix no. 2 - Consolidated statement of profit and loss for each quarter - multi quarter data

Quarter	4	3	2	1
	In NIS millions			
	2023			
Interest income	5,263	5,422	5,334	4,693
Interest expenses	2,708	2,715	2,400	1,953
Net interest income	**2,555**	**2,707**	**2,934**	**2,740**
Credit loss expenses	390	596	312	204
Net interest income after credit loss expenses	**2,165**	**2,111**	**2,622**	**2,536**
Non-interest Income				
Non-interest financing income	295	312	282	329
Fees and commissions	821	918	869	887
Other income	118	6	-	301
Total non-interest income	**1,234**	**1,236**	**1,151**	**1,517**
Operating and other Expenses				
Salaries and related expenses	979	972	954	945
Maintenance and depreciation of buildings and equipment	363	384	326	324
Other expenses	680	687	659	693
Total operating and other expenses	**2,022**	**2,043**	**1,939**	**1,962**
Profit before taxes	1,377	1,304	1,834	2,091
Provision for taxes on profit	470	457	626	763
Profit after taxes	**907**	**847**	**1,208**	**1,328**
Bank's share in profit (loss) of associates, net of tax effect	10	(17)	(9)	5
Net Profit:				
Before attribution to non-controlling interests in consolidated companies	917	830	1,199	1,333
Attributed to the non-controlling interests in consolidated companies	2	(13)	(12)	(64)
Net Profit attributed to bank's shareholders	**919**	**817**	**1,187**	**1,269**
	2022			
Interest income	3,930	3,113	2,573	2,084
Interest expenses	1,390	833	500	284
Net interest income	**2,540**	**2,280**	**2,073**	**1,800**
Credit loss expenses (expenses release)	230	106	131	(60)
Net interest income after credit loss expenses	**2,310**	**2,174**	**1,942**	**1,860**
Non-interest Income				
Non-interest financing income (expenses)	248	151	(27)	45
Fees and commissions	857	871	851	825
Other income	9	5	-	416
Total non-interest income	**1,114**	**1,027**	**824**	**1,286**
Operating and other Expenses				
Salaries and related expenses	988	881	844	855
Maintenance and depreciation of buildings and equipment	313	309	307	303
Other expenses	666	637	565	549
Total operating and other expenses	**1,967**	**1,827**	**1,716**	**1,707**
Profit before taxes	1,457	1,374	1,050	1,439
Provision for taxes on profit	516	472	371	447
Profit after taxes	**941**	**902**	**679**	**992**
Bank's share in profit of associates, net of tax effect	(3)	11	14	5
Net Profit:				
Before attribution to non-controlling interests in consolidated companies	938	913	693	997
Attributed to the non-controlling interests in consolidated companies	1	(20)	(13)	(14)
Net Profit attributed to bank's shareholders	**939**	**893**	**680**	**983**

Appendix no. 3 - Condensed Consolidated balance sheet - multi quarter data

	2023				2022			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	51,115	57,552	56,696	60,040	65,713	71,510	63,449	60,997
Securities								
Held-to-maturity bonds	13,179	13,826	13,615	13,582	14,847	14,662	14,713	10,161
Available- for- sale bonds	36,450	29,907	30,423	29,482	25,858	24,679	25,945	29,413
Not for trading shares	1,899	1,934	1,798	1,811	1,767	1,865	1,840	1,746
Trading securities	7,740	6,713	8,701	6,340	2,322	1,427	1,428	1,598
Total Securities	59,268	52,380	54,537	51,215	44,794	42,633	43,926	42,918
Securities borrowed or purchased under agreements to resell	851	1,150	1,024	1,251	857	1,271	1,330	1,156
Credit to the public	262,941	262,463	256,768	252,845	244,288	240,032	235,510	220,733
Provision for credit loss	(4,214)	(4,034)	(3,571)	(3,362)	(3,209)	(3,151)	(3,045)	(2,882)
Net credit to the public	**258,727**	**258,429**	**253,197**	**249,483**	**241,079**	**236,881**	**232,465**	**217,851**
Credit to Governments	3,073	3,313	3,036	2,912	2,599	2,574	2,607	2,553
Investments in Associates	471	468	483	491	486	502	493	455
Buildings and equipment	4,535	4,502	4,245	4,031	3,904	3,724	3,573	3,441
Intangible assets and goodwill	161	162	162	162	162	163	163	163
Assets for derivative instruments	11,106	14,857	12,400	11,959	11,420	13,601	11,023	5,732
Other assets	6,417	6,389	6,035	5,928	5,740	6,215	5,392	5,392
Total Assets	**395,724**	**399,202**	**391,815**	**387,472**	**376,754**	**379,074**	**364,421**	**340,658**
Liabilities and Equity								
Deposits from the public	297,597	298,435	292,656	289,712	292,293	290,646	283,423	267,731
Deposits from banks	11,328	14,551	14,208	17,517	15,376	16,719	14,760	13,183
Deposits from the Government	76	117	136	131	117	120	124	159
Securities loaned or sold under buy-back arrangements	12,642	11,007	10,728	7,787	3,739	3,038	1,946	-
Bonds and Subordinated debt notes	15,491	16,225	16,479	15,097	12,308	13,491	13,863	12,211
Liabilities for derivative instruments	10,469	11,445	10,124	10,005	9,348	11,718	9,303	5,892
Other liabilities	18,883	19,031	19,802	20,473	18,095	18,624	16,909	17,773
Total liabilities	**366,486**	**370,811**	**364,133**	**360,722**	**351,276**	**354,356**	**340,328**	**316,949**
Equity capital attributed to the Bank's shareholders	28,474	27,621	27,016	26,096	24,880	24,112	23,490	23,027
Non-controlling rights in consolidated companies	764	770	666	654	598	606	603	682
Total equity	**29,238**	**28,391**	**27,682**	**26,750**	**25,478**	**24,718**	**24,093**	**23,709**
Total Liabilities and Equity	**395,724**	**399,202**	**391,815**	**387,472**	**376,754**	**379,074**	**364,421**	**340,658**

Appendix no. 4 - Consolidated statement of profit and loss for the last five years

	As at December 31				
	2023	2022	2021	2020	2019
	in NIS millions				
Interest income	20,712	11,700	7,491	6,987	7,567
Interest expenses	9,776	3,007	962	1,089	1,674
Net interest income	**10,936**	**8,693**	**6,529**	**5,898**	**5,893**
Credit loss expenses (expenses release)	1,502	407	(693)	1,718	690
Net interest income after credit loss expenses	**9,434**	**8,286**	**7,222**	**4,180**	**5,203**
Non-interest Income					
Non-interest financing income	1,218	417	765	1,142	742
Fees and commissions	3,495	3,404	3,125	2,826	2,972
Other income	425	430	72	39	57
Total non-interest income	**5,138**	**4,251**	**3,962**	**4,007**	**3,771**
Operating and other Expenses					
Salaries and related expenses	3,850	3,568	3,468	3,242	3,343
Maintenance and depreciation of buildings and equipment	1,397	1,232	1,187	1,185	1,098
Other expenses	2,719	2,417	2,203	2,254	1,858
Total operating and other expenses	**7,966**	**7,217**	**6,858**	**6,681**	**6,299**
Profit before taxes	6,606	5,320	4,326	1,506	2,675
Provision for taxes on profit	2,316	1,806	1,516	549	932
Profit after taxes	**4,290**	**3,514**	**2,810**	**957**	**1,743**
Bank's share in profit of associates, net of tax effect	(11)	27	20	50	16
Net Profit :					
Before attribution to non-controlling interests in consolidated companies	4,279	3,541	2,830	1,007	1,759
Attributed to the non-controlling interests in consolidated companies	(87)	(46)	(57)	(32)	(57)
Net Profit attributed to bank's shareholders	**4,192**	**3,495**	**2,773**	**975**	**1,702**
Total earnings per share attributed to Bank's shareholders	**3.39**	**2.87**	**2.38**	**0.84**	**1.46**

Appendix no. 5 - Consolidated balance sheets as of the end of the last five years

	As at December 31				
	2023	2022	2021	2020	2019
	In NIS millions				
Assets					
Cash and deposits with banks	51,115	65,713	59,638	42,936	26,044
Securities					
Held-to-maturity bonds	13,179	14,847	10,197	7,923	4,753
Available- for- sale bonds	36,450	25,858	31,027	32,633	29,562
Not for trading shares	1,899	1,767	1,613	1,092	967
Trading securities	7,740	2,322	1,032	1,137	2,463
Total Securities	59,268	44,794	43,869	42,785	37,745
Securities borrowed or purchased under agreements to resell	851	857	1,207	1,074	531
Credit to the public	262,941	244,288	216,196	192,479	182,991
Provision for credit loss	(4,214)	(3,209)	(3,040)	(3,761)	(2,524)
Net credit to the public	**258,727**	**241,079**	**213,156**	**188,718**	**180,467**
Credit to Governments	3,073	2,599	2,664	3,473	3,515
Investments in Associates	471	486	462	348	171
Buildings and equipment	4,535	3,904	3,401	2,995	2,577
Intangible assets and goodwill	161	162	163	164	164
Assets for derivative instruments	11,106	11,420	5,522	6,400	4,545
Other assets	6,417	5,740	5,006	5,076	4,064
Total Assets	**395,724**	**376,754**	**335,088**	**293,969**	**259,823**
Liabilities and Equity					
Deposits from the public	297,597	292,293	260,907	226,118	201,450
Deposits from banks	11,328	15,376	12,534	13,107	6,419
Deposits from the Government	76	117	346	344	181
Securities loaned or sold under buy-back arrangements	12,642	3,739	-	161	346
Bonds and Subordinated debt notes	15,491	12,308	15,071	10,201	13,129
Liabilities for derivative instruments	10,469	9,348	6,323	7,365	4,839
Other liabilities	18,883	18,095	17,759	16,946	14,266
Total liabilities	**366,486**	**351,276**	**312,940**	**274,242**	**240,630**
Equity capital attributed to the Bank's shareholders	28,474	24,880	21,483	19,182	18,678
Non-controlling rights in consolidated companies	764	598	665	545	515
Total equity	**29,238**	**25,478**	**22,148**	**19,727**	**19,193**
Total Liabilities and Equity	**395,724**	**376,754**	**335,088**	**293,969**	**259,823**

Appendix no. 6 - Additional details - securities portfolio

1. Available for sale bonds - data according to economic sectors

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

	December 31 ,2023			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	2,397	2,381	27	43
Financial services[1]	6,850	6,383	33	500
Total non government bonds	**9,247**	**8,764**	**60**	**543**
Government bonds				
U.S. government	5,162	5,119	16	59
Israel Government	23,055	22,339	52	768
Other Governments	229	228	-	1
Total government bonds	**28,446**	**27,686**	**68**	**828**
Total bond in the available-for-sale portfolio	**37,693**	**36,450**	**128**	**1,371**
	December 31 ,2022			
Total non governmental bonds and bills	**8,586**	**7,858**	**20**	**748**
Total government bonds and bills	**18,758**	**18,000**	**60**	**818**
Total available-for-sale bonds	**27,344**	**25,858**	**80**	**1,566**

* Including the investment of IDB Bank in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 88-159 million, each, in municipal bonds of Washington state, in bonds of Texas state and in bonds of the New York state.

(1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

	December 31 ,2023			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies[2]	468	470	4	2
Ginnie Mae	4,399	3,934	17	482
Freddie Mac	31	26	-	5
Fannie Mae	27	25	-	2
Other	1,925	1,928	12	9
Total financial services	**6,850**	**6,383**	**33**	**500**

Appendix no. 6 - Additional details - securities portfolio (continued)

1. Available for sale bonds - data according to economic sectors (continued)

(2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

	December 31 ,2023			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Western Europe[3]	143	145	2	-
Israel	91	89	-	2
Australia	234	236	2	-
Total banks and banking holding companies	**468**	**470**	**4**	**2**

(3) Details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe

France	126	127	1	-
Netherlands	17	18	1	-
Total	**143**	**145**	**2**	**-**

Appendix no. 6 - Additional details - securities portfolio (continued)

2. Held-to-maturity securities - data according to economic sectors

Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors

	December 31 ,2023			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Public and community services	63	61	-	2
Financial services*	3,643	3,237	7	413
Total non government bonds	**3,706**	**3,298**	**7**	**415**
Total Government bonds	**9,473**	**8,650**	**-**	**823**
Total bonds in the held-to-maturity portfolio	**13,179**	**11,948**	**7**	**1,238**
	December 31 ,2022			
Total non govermental bonds and bills	**3,350**	**2,939**	**1**	**412**
Total government bonds and bills	**11,497**	**10,655**	**1**	**843**
Total held-to-maturity bonds	**14,847**	**13,594**	**2**	**1,255**

*Following are details of Held-to-maturity bonds in the financial services sector:

Ginnie Mae	3,518	3,121	7	404
Freddie Mac	54	49	-	5
Fannie Mae	71	67	-	4
Total financial services	**3,643**	**3,237**	**7**	**413**

3. Trading Bonds - data according to economic sectors

Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

	December 31 ,2023			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors	4	3	-	1
Total non government bonds	**4**	**3**	**-**	**1**
Total government bonds	**7,621**	**7,633**	**16**	**4**
Total bonds in the trading portfolio	**7,625**	**7,636**	**16**	**5**
	December 31 ,2022			
Total non govermental bonds	**15**	**14**	**-**	**1**
Total government bonds	**2,294**	**2,282**	**-**	**12**
Total trading bonds in the trading portfolio	**2,309**	**2,296**	**-**	**13**

Appendix no. 7 - Additional details

1. Activity in derivative financial instruments

Credit risk involved in financial instruments. The Bank's activity in derivative financial instruments involves special risk factors including credit risks. The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".
Note 28 to the financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part B of the aforementioned Note.

(1) Details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	As of December 31	
	2023	2022
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	207	228
With an A+ rating	171	259
With an A rating	40	5
With an A- rating	53	148
With a BBB+ rating	5	-
With a B+ rating	1	-
Not rated	9	1
Total against foreign banks	**486**	**641**
Total against Israeli banks	**50**	**-**
Total Balance-sheet balances of assets deriving from derivative instruments	**536**	**641**

(2) Details according to rating of off balance sheet credit risk for transactions in derivative instruments where the counterparty is a bank

	As of December 31	
	2023	2022
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	355	269
With an A+ rating	1,071	893
With an A rating	107	186
With an A- rating	93	118
With an BBB+ rating	10	5
With an B+ rating	2	-
Not rated	13	8
Total against foreign banks	**1,651**	**1,479**
Total against Israeli banks	**187**	**258**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**1,838**	**1,737**

Appendix no. 7 - Additional details (continued)

1. Activity in derivative financial instruments (continued)

(3) Details of the column "Other" in Note 28 B to the financial statements according to the overall credit to the public risk per economic sectors

		As of December 31, 2023		As of December 31, 2022
		in NIS million		
Agriculture		3		3
Industry:				
Machines, electrical and electronic equipment	230		287	
Mining, chemical industry and oil products	133		173	
Other	43		39	
Total industry		406		499
Construction and real estate:				
Acquisition of real estate for construction	202		151	
Real estate holdings	104		43	
Other	19		8	
Total Construction and real estate		325		202
Electricity and water		495		569
Commerce		247		253
Hotels, hotel services and food		109		68
Transportation and storage		42		93
Communications and computer services		28		51
Financial services:				
Financial institution (excluding banks)	249		226	
Private customers active on the capital market	2,414		2,067	
Financial holding institutions	415		424	
Insurance and provident fund services	-		-	
Total financial services		3,078		2,717
Business and other services		13		21
Public and community services		44		29
Private individuals - housing loans		-		-
Private individuals - other		7		8
Total credit risk in respect of derivative instruments		**4,797**		**4,513**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.		-		-
Total credit risk in respect of derivative instruments (after deduction of financial instuments and in respect of a cash collateral received)		**4,797**		**4,513**

Appendix no. 7 - Additional details (continued)

2. Credit levels in excess of NIS 800 million - additional details

Note 31 D presents details regarding composition of credit to the public and off-balance-sheet credit risk, by size of credit to individual borrower, according to public reporting instructions published by the Supervisor of Banks.

General details regarding the largest borrowers included in the upper levels (over NIS 800 million) of the said Note[(1)] (Consolidated)

	As at December 31	
	2023	2022
	in NIS thousands	
Field of activity:		
Financial services[(2)]	7,452,818	6,723,137
Industry	1,900,119	2,072,808
Electricity and water	437,017	1,060,258
Financial services	2,011,335	2,718,691
Real estate	1,352,478	1,484,262
Financial services	1,421,732	807,284
Real estate	835,996	844,097
Financial services	886,874	853,191
Financial services	327,335	874,573
Financial services	2,007,282	1,608,249
Real estate	1,118,276	1,368,237
Industry	1,124,239	893,918
Financial services	811,470	662,542
Real estate	461,661	854,418
Real estate	1,194,782	905,934
Public and Community Services	997,384	985,822
Commerce	1,595,893	1,610,556
Financial services	1,807,845	585,742
Financial services	1,509,728	-
Industry	1,302,993	670,748
Real estate	1,099,956	713,053
Financial services	1,025,199	-
Real estate	1,002,534	636,973
Real estate	917,484	371,722
Financial services	886,141	221,529
Electricity and water	812,746	681,412

Footnotes:

(1) The above data represent "indebtedness" data (also including unutilized credit facilities) and before allowance for credit losses.

(2) Including mortgage backed securities issued by GNMA.

Appendix no. 7 - Additional details (continued)

3. Details of the investment in government bonds

Note 12 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Details divided by governments with respect to the total securities portfolio

	December 31, 2023		December 31, 2022	
	Book value	Fair value[1]	Book value	Fair value[1]
	In NIS millions			
Of the Israeli Government	39,369	38,546	26,328	25,486
U.S. government	5,195	5,195	5,254	5,254
Other governments	228	228	197	197
Total	**44,792**	**43,969**	**31,779**	**30,937**

Footnote:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

Appendix no. 8 - Glossary

Option	A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.
Bond	A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (according to the terms prescribed in the bond).
Least developed countries - LDC	Countries classified by the World Bank in a low or medium income group.
Regulatory capital	The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.
Indebtedness	Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313. Special Mention Debt - A debt that has potential weaknesses for which Management's special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.
Special mention debt	A debt that has potential weaknesses requiring Management's special attention, which – if not dealt with – might result in deterioration of the chances of the credit being repaid or in the Bank's status as a creditor.
Problematic debt	A debt that is classified as "non-accruing", "substandard" or under "special mention".
Substandard debt	A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and for which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.
Non-accruing debt	A debt for which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.
Collateral dependent debt	A non-accruing debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.
Total capital adequacy ratio	The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank's total risk weighted assets.
Liquidity Coverage Ratio (LCR)	The ratio between the high-quality liquid assets and the net cash outflows for the next 30 days in a stress scenario. The ratio serves as a measure of the Bank's ability to meet its liquidity needs for a future 30-day period.
Net Stable Funding Ratio (NSFR)	The ratio between all the stable funding sources, which are expected with a high likelihood, that are available to the Bank in the coming year, and all the applications that the Bank expects to continue to fund in the coming year.
Leverage Ratio	The ratio (as a percentage) between the "capital measure" and the "exposure measure".
Recorded amount of a debt	The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net fees and commissions or deferred net costs that have been added to the debt balance and have not yet been amortized, net of any part of the debt that has been subject to an accounting write-off.
Basel instructions	The instructions for the management of banks risks that have been prescribed by the Basel Committee that deals with supervision and the setting of standards for the supervision of the world's banks.
Subordinated debt notes	Debt notes, in which the rights conferred thereunder are subordinate to claims by the rest of the Bank's creditors, except for other debt notes of the same class.
Off-balance-sheet credit instruments	Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).
Derivative instrument	A financial instrument or other contract that contains three cumulative features: a. A basis and nominal value that determine the settlement amount of the instrument. b. The net initial investment required is less than that that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required). c. Its terms require or permit net settlement.

Appendix no. 8 – Glossary (continued)

Forward looking information	Some of the information detailed in the directors' report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 5728-1968. The Bank's actual results might differ materially from those indicated in the forward-looking information, due to a large number of factors, including, among other things, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans. Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to...", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain. The information presented below relies, among other things, on information in the Bank's hands, inter-alia, publications by other entities such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing and other entities that publish data and assessments as to the Israeli and global financial and capital markets. The above reflects the Bank's and its subsidiaries point of view at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.
Financial instrument	Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions: A. The instrument imposes a contractual obligation on one party to transfer cash or another financial instrument to the second party, or to exchange other financial instruments with the second party under terms that might be unfavorable to the first party. B. The instrument grants the second party a contractual right to receive cash or another financial instrument from the first party, or to exchange other financial instruments with the first party under terms that might be beneficial to the second party.
Average maturity	A weighted average of the time to the principal repayment and to the interest payments of interest-bearing financial instruments.
Over-the-counter (OTC) derivative	Derivative instruments which are not traded on an official stock exchange and are created within the framework of an agreement between two counterparties.
Counterparty credit risk - CVA (Credit Valuation Adjustment)	The exposure to a loss that might arise if the counterparty to a derivative instrument transaction does not fulfill the terms of the transaction.
Active market	A market in which transactions in an asset or a liability take place with sufficient frequency and volumes as to provide information regarding the pricing of the assets or liabilities on a current basis.
Financing rate - LTV (Loan To Value Ratio)	The ratio of the approved debt facility, at the time of granting the facility, to the value of the asset that secures the debt, as approved by the Bank at the time of granting the facility, which is used in calculating the "capital adequacy".
ICAAP (Internal Capital Adequacy Assessment Process)	The Bank's internal capital adequacy assessment process. The process combines, among other things, setting capital targets, capital planning measures and examining the capital position under a variety of stress tests.

Appendix no. 9 - Index

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Mercantile Discount Bank

Capital Market And Investments
Tafnit Discount Asset Management
Discount Capital
Discount Capital Underwriting
Discount Manpikim

Credit Cards
Israel Credit Cards
Diners Club

Digital Financial Services
PayBox
Greenlend

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