

Bank Hapoalim

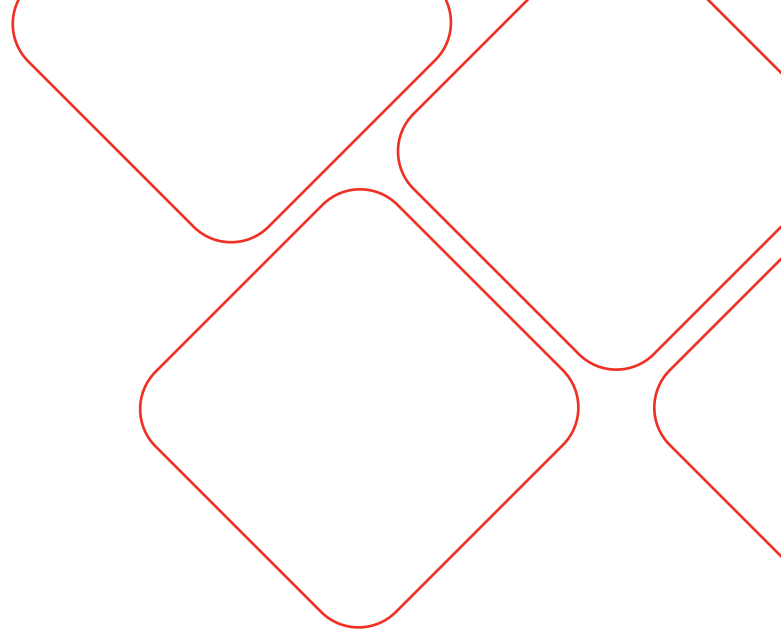
Report on Risks

Pillar 3 Disclosure and Additional

Information Regarding Risks

as at September 30, 2023





Contents

A. Introduction	8	F. Market risk	59
A.1. Forward-looking information	8	F.1. Market risk in the trading book	59
A.2. Disclosure declaration	8	F.2. Interest-rate risk in the banking book	61
B. Principal supervisory ratios, risk-management review, and weighted risk-adjusted assets	9	F.3. Share and credit spread risk – investment risk	65
B.1. Principal supervisory ratios	9	G. Liquidity risk	65
B.2. Risk assessment and management	10	H. Operational risk	74
B.3. Severity of risk factors	12	I. Compliance risk	74
B.4. Top and emerging risks	13	J. Legal risk	76
B.5. Impacts of the Swords of Iron War	16	K. Reputational risk	76
B.6. Review of weighted risk-adjusted assets	19	L. Regulatory risk	76
C. Capital and leverage	20	M. Economic risk	76
C.1. Composition of capital	20	N. Strategic risk	77
C.2. Capital adequacy	22	O. Environmental risk	77
C.3. Leverage ratio	26	P. Model risk	78
D. Credit risk	28		
D.1. Credit quality of credit exposures	30		
D.2. Credit risk exposures	33		
D.3. Additional information regarding exposures to credit risks	38		
D.4. Credit risk mitigation: standardized approach disclosures	50		
E. Counterparty credit risks	55		

This is a translation of the Hebrew report and has been prepared for convenience only. In case of any discrepancy, the Hebrew version will prevail.

List of Tables

Principal supervisory ratios, risk-management review, and weighted risk-adjusted assets	
Table B-1: Principal supervisory ratios	9
Table B-2: Severity of risk factors	12
Table B-3: Review of weighted risk-adjusted assets	19
Capital and leverage	
Table C-1: Composition of supervisory capital	20
Table C-2: Comparison of balance sheet assets to exposure measurement, for the purposes of the leverage ratio	26
Table C-3: Leverage ratio disclosure	27
Credit risk	
Table D-1: Details regarding debt modifications	29
Table D-2: Credit risk indicators	30
Table D-3: Credit quality of credit exposures	32
Table D-4: Details of exposures by economic sector in Israel	33
Table D-5: Exposure of the Bank Group to foreign financial institutions	37
Table D-6: Segmentation of credit risk in the construction and real-estate sectors, by principal area of activity	39
Table D-7: Analysis of credit quality in the construction and real-estate sectors	40
Table D-8: Risk of credit in the real-estate sector at the Corporate Banking Division in Israel, by financing rate (LTV) and absorption capacity	41
Table D-9: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy	44
Table D-10: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank	45
Table D-11: Details of characteristics of housing credit granted by the Bank – percentage of total new loans executed	46
Table D-12: Balance of credit to private individuals in Israel	48
Table D-13: Exposures of the Bank to leveraged financing, by economic sector of the borrower	49
Table D-14: Credit risk mitigation	51
Table D-15: Standardized approach – exposures by asset type and risk weight	52
Counterparty credit risks	
Table E-1: Analysis of exposure to counterparty credit risk based on the supervisory approach	55
Table E-2: Capital allocation in respect of credit value adjustment	56
Table E-3: Standardized approach – exposures to counterparty credit risk based on the supervisory portfolio and risk weights	56
Table E-4: Composition of collateral in respect of exposure to counterparty credit risk	57
Market risk	
Table F-1: Risk estimates of trading activity (VaR)	59
Table F-2: Sensitivity of the Bank to changes in the exchange rates of foreign currencies with a significant volume of activity and to changes in the consumer price index	60
Table F-3: Market risk based on the standardized approach	61
Table F-4: Adjusted net fair value of the financial instruments of the Bank and its consolidated companies	62
Table F-5: Effect of scenarios of changes in interest rates on the adjusted net fair value of the Bank and its consolidated companies	63
Table F-6: Sensitivity of the economic value of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario)	63
Table F-7: Effect of scenarios of changes in interest rates on net interest income and on non-interest financing income	64
Liquidity risk	
Table G-1: Liquidity coverage ratio (LCR) – limited banking corporation and consolidated subsidiaries	66
Table G-2: Net stable financing ratio (NSFR), limited banking corporation and consolidated subsidiaries	70
Table G-3: Details of liquid assets, by level, as required in the Basel directives	73

Report on Risks

We are honored to present the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2023.

The information in this report, as required by the reporting directives of the Bank of Israel, includes disclosure requirements issued by the Basel Committee and risk disclosure requirements based on other sources, including disclosure requirements issued by the Financial Stability Forum (FSF) and disclosure requirements issued by a task force established by the Financial Stability Board (FSB) in order to improve risk disclosure at banking corporations.

This Report on Risks is published within the financial reporting of Bank Hapoalim B.M., and contains information regarding the management of risks and capital. This report should be perused in conjunction with the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022, and the Condensed Financial Statements as at September 30, 2023.

Sincerely yours,

Ruben Krupik

Chairman of the
Board of Directors

Dov Kotler

President and
Chief Executive Officer

Merav Ben Shushan Cohen

Senior Deputy Managing Director,
Chief Risk Officer

Tel Aviv, November 15, 2023

A. Introduction

The Swords of Iron War broke out on Saturday, October 7, 2023. Uncertainty is high with regard to the development, scope, and duration of the fighting, and consequently the extent of its effect on the various economic sectors, the customers of the Bank, and the Bank itself. For details regarding the potential effects of the war, see [the section "Impacts of the Swords of Iron War"](#) and [the sections on risks](#) below.

A.1. Forward-looking information

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

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

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

A.2. Disclosure declaration

Pursuant to the instructions of the Bank of Israel, the disclosure declarations in the periodic financial report of the Bank are also valid for the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks. As part of the discussions of the financial statements of the Bank, the Board of Directors of the Bank approved the publication of the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2023.

B. Principal supervisory ratios, risk-management review, and weighted risk-adjusted assets

B.1. Principal supervisory ratios

Table B-1: Principal supervisory ratios

	On a consolidated basis, as at				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
NIS millions					
Available capital					
Common equity Tier 1 capital	50,460	49,449	48,241	46,745	45,262
Common equity Tier 1 capital before effect of transitional directives ⁽¹⁾	50,189	49,160	47,935	46,330	44,830
Tier 1 capital	50,460	49,449	48,241	46,745	45,262
Tier 1 capital before effect of transitional directives ⁽¹⁾	50,189	49,160	47,935	46,330	44,830
Total capital	64,320	63,061	61,704	61,094	58,514
Total capital before effect of transitional directives ⁽¹⁾	64,036	62,777	61,408	60,704	58,103
Risk-weighted assets					
Total risk-weighted assets (RWA)	437,474	429,440	424,532	415,577	407,914
Total risk-weighted assets (RWA) before effect of transitional directives ⁽¹⁾	437,826	429,815	425,346	417,603	409,587
Capital-adequacy ratios according to the directives of the Banking Supervision Department					
Common equity Tier 1 capital ratio	11.53%	11.51%	11.36%	11.25%	11.10%
Common equity Tier 1 capital ratio before effect of transitional directives ⁽¹⁾	11.46%	11.44%	11.27%	11.09%	10.95%
Tier 1 capital ratio	11.53%	11.51%	11.36%	11.25%	11.10%
Tier 1 capital ratio before effect of transitional directives ⁽¹⁾	11.46%	11.44%	11.27%	11.09%	10.95%
Total capital ratio	14.70%	14.68%	14.53%	14.70%	14.34%
Total capital ratio before effect of transitional directives ⁽¹⁾	14.63%	14.61%	14.44%	14.54%	14.19%
Common equity Tier 1 capital ratio required by the Banking Supervision Department ⁽²⁾	10.23%	10.23%	10.23%	10.23%	10.23%
Available common equity Tier 1 capital ratio beyond the requirement of the Banking Supervision Department ⁽²⁾	1.30%	1.28%	1.13%	1.02%	0.87%
Leverage ratios according to the directives of the Banking Supervision Department					
Total exposures	745,857	738,952	738,726	737,115	732,928
Total exposures before effect of transitional directives ⁽¹⁾	745,998	739,102	738,885	737,330	733,152
Leverage ratio	6.77%	6.69%	6.53%	6.34%	6.18%
Leverage ratio before effect of transitional directives ⁽¹⁾	6.73%	6.65%	6.49%	6.28%	6.11%

(1) Before the effect of adjustments for efficiency plans; before the effect of adjustments in respect of current expected credit losses; and before the effect of adjustments in respect of high-risk loans for land acquisition.

(2) Including a capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief was granted under the Temporary Order.

Table B-1: Principal supervisory ratios (continued)

	Average for the three months ended				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Liquidity coverage ratio according to the directives of the Banking Supervision Department					
Total high-quality liquid assets	167,006	175,609	173,662	179,514	189,487
Total net cash outflows	134,254	138,971	136,279	147,712	150,828
Liquidity coverage ratio (in %)	124%	126%	127%	122%	126%
	On a consolidated basis, as at				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Net stable financing ratio according to the directives of the Banking Supervision Department					
Total available stable financing	412,654	407,381	410,435	412,150	397,965
Total required stable financing	330,887	326,541	323,578	316,321	312,819
Net stable financing ratio (%)	125%	125%	127%	130%	127%

B.2. Risk assessment and management

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

The risk-management strategy of the Bank Group is designed to support the achievement of the strategic objectives of the Group as a whole, while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible function at all levels of the organization. Risk management at the Bank is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting risk-taking in an informed manner in order to maximize the Group's profitability at a risk level aligned with its risk appetite.

B.2.a. Risk management structure and organization

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

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

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

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

The member of the Board of Management responsible for managing market, investment, and liquidity risks is the Head of Financial Markets and International Banking, Mr. Y. Antebi.

Legal risk is managed by Attorney Y. Almog, Chief Legal Advisor.

Technological risk, including cyber risk, is managed by Ms. E. Ben-Zeev, Head of Information Technology.

Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.

For details and more extensive information regarding risk management governance, including the control approach, the responsible parties, and the committees of the Board of Directors and Board of Management relevant to risk management, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022](#).

B.3. Severity of risk factors

Table B-2: Severity of risk factors

The risk level established by the Bank is based on quantitative methodology and qualitative considerations. The uncertainty in the economy due to economic and other processes escalated significantly with the outbreak of the Swords of Iron War; uncertainty is high with regard to the development, scope, and duration of the fighting. There is therefore high uncertainty with regard to the extent of the effect of the war on the various economic sectors, the customers of the Bank, and the Bank itself, while the government's support, the extent of which is unknown at this stage, also has potential economic effects. Accordingly, the weight of qualitative considerations in the assessment of the severity of risk factors has grown.

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

* The level of credit risk in the third quarter of 2023 has risen to Medium-High, due to the expected effects of the Swords of Iron War, in addition to the deterioration of the economic situation observed in the preceding quarters, which was influenced by the increase in the interest rate. The outbreak of the war has led to a significant increase in the level of uncertainty, with regard to the scope and duration of the state of war, the size of the displaced population, the extent of government support, and more. The effect of the fighting on business activity is expected to raise the level of credit risk, taking into consideration the deceleration of economic activity and worsening of fiscal conditions. Accordingly, the level of risk in respect of the quality of borrowers and/or collateral has been raised to Medium-High. The construction and real-estate industry, which was affected by a decrease in the volume of transactions and a certain decrease in prices before the war, is expected to be influenced by the deceleration of economic activity, which is likely to continue to affect the volume of transactions and lead to a more significant decrease in prices of homes. In addition, projects under construction may be exposed to labor shortages, at least for a while. As a result, the risk level of sector concentration / exposure to credit in the construction and real-estate sectors was also raised to Medium-High. For further information, see [the section "Impacts of the Swords of Iron War" and the section "Credit risk,"](#) below.

** The risk level was raised in the second quarter of 2023, in light of the potential aggregate effect of the developments in the economy, including the effects of the high inflation and ensuing monetary tightening, the forecasts of a global economic slowdown, and the impacts of the progression of the legislative procedures on judicial matters in the absence of a broad consensus, on the credit rating of the state, combined with proposed regulatory changes, particularly in the area of banking. The Swords of Iron War has led to the reduction of these risks, but also to the formation of new risks. At this stage, it is not possible to estimate the duration or developments of the war, and accordingly, its impact on the Israeli economy, the customers of the Bank, and the Bank itself, while the government's support, the extent of which is unknown at this stage, also has potential economic effects. Based on the various risk scenarios, we are maintaining our assessment at Medium-High. For further details, see [also the section "Top and emerging risks" and the section "Impacts of the Swords of Iron War,"](#) below.

B.4. Top and emerging risks

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

Risk management at the Bank Group is described extensively later in this report.

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

- **Macroeconomic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy, significant changes in monetary policies and interest-rate curves, market volatility, changes in prices of financial assets in Israel and worldwide and in real-estate prices, and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. The Bank's multi-annual strategic plan includes certain assumptions regarding the macroeconomic environment, taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations.

The Swords of Iron War and the economy in Israel: The war that began on October 7, 2023, has caused, among other effects, disruptions of economic activity in Israel, a large-scale call-up of reserve military forces, partial shutdown of commercial activity, a decrease in consumption, and an increase in uncertainty. The war, particularly to the extent that it is prolonged and/or expanded, has the potential to exert a negative effect on the Israeli economy, the customers of the Bank, and the Bank itself, and affects the way the Bank works and the potential for materialization of various risks. The war may also affect the credit rating of the state (which has been placed on a negative watch list/assigned a negative rating outlook by various rating agencies); the credit ratings of banks (which are affected by the sovereign rating, and have been placed on similar status by some rating agencies); and capital, leverage, and liquidity ratios. At this stage, the Bank cannot estimate how the war may develop, its economic and financial effects, or the duration of such effects; accordingly, it is difficult to estimate the future impacts on the condition of the Bank's customers and the Bank itself, and on the various risks. The Bank is working to support its customers and the residents of the Otef Aza (Gaza Envelope) region. For details, see [the section "Impacts of the Swords of Iron War," below](#), and [the section "Economic and financial review" in the Report of the Board of Directors and Board of Management.](#)

Global economy: While global inflation has started to fall, it is still high and inconsistent with the inflation targets of the central banks; the central banks are applying tight policies. Globally, rising interest rates have led to adjustments of financial and non-financial asset prices. Global economic activity in recent months has varied widely among regions. The United States economy continues to generate positive surprises, as private consumption expands despite the ongoing erosion of households' purchasing power, whereas Europe is now showing signs of recession. By contrast, labor markets are more uniform, continuing to show surplus demand for workers, upward pressure on wages, and low unemployment rates indicating full employment. In August, the credit-rating agency Fitch downgraded the debt rating of the United States government from AAA to AA+. The downgrade was attributed to the ongoing deterioration in the fiscal position of the United States and an expected deceleration of growth. Accordingly, United States government bond yields rose sharply in September and October, reflecting investors' worries over fiscal deterioration. The central banks continued to raise interest rates during the third quarter of 2023. The Federal Reserve in the United States raised the interest rate from 5.25% to 5.50%, while the European Central Bank raised the interest rate on deposits from 3.5% to 4.0%. Expectations of further rate hikes have diminished almost entirely; estimates indicate that the interest-rate increase process has ended. The markets are currently pricing in expectations of a gradual decrease in global interest rates in the second half of 2024.

- **Information-security risk and cyber incidents:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. These lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense. Note that the transition of employees to remote work, transition to cloud computing, and increased digitization of the activity of the Bank, including an increase in remote work with customers, concurrently with an increase in threats and attempted attacks on the Bank and its customers, have intensified the risk. Further, during the war, the number of cyber attacks on targets in Israel, including the Bank, has increased, with no damage to its activity to date. The Bank is taking action to mitigate this risk.
- **Regulatory environment in Israel and overseas:** Local and international regulatory reforms have implications for the business of the Bank, in Israel and overseas. In Israel, several regulatory initiatives have been formulated over the last few years, primarily concerned with increasing competition in the banking system in Israel; additional regulatory initiatives are in the process of being generated, some of which concern direct intervention in prices and interest rates in the banking industry. Proposals and suggested measures include the intention of the Ministry of Finance to impose a tax on excess profits; the announcement by the Competition Authority of the possibility of declaring the banks a concentration group; directives regarding the proposal of the Ministry of Finance to create a default deposit; direct legislative intervention in interest rates on deposits, current accounts, and mortgages through private bills; and draft legislative amendments proposed by the Israel Securities Authority concerning the exclusion of money-market funds from the Advising Law and creation of money-market funds with similar characteristics to deposits. For further details, see [the section "Regulatory initiatives" in the Corporate Governance Report](#). The regulatory initiatives and trends may adversely affect the banking system in general and the Bank in particular. At this stage, it is too early to estimate the effects of these changes, if they occur, on the Bank. Further, these effects may not be immediate; instead, there may be slower, prolonged effects derived from processes of gradual change in the Bank's environment (customers, market players, etc.), alongside the gradual preparations of the Bank for the necessary adaptation of its operations.

- **Competitive and strategic risk:** Competition from big tech companies (Apple, Google, Amazon, and others), fintech companies, and digital banks, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the banking industry, bank account switching, and open banking, as well as competition in the business sector, may affect the business results of the Bank, including its credit spreads. The Bank has formulated a comprehensive strategic plan for the period through 2026, encompassing, among other matters, action in the areas of the core activities of the Bank, innovation, technology, the structure of operations, and more, in order to respond to such threats, and updates this plan periodically.
- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism (including international sanctions), provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with the violation of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. The Swords of Iron War and the state of emergency are intensifying compliance risks arising from terrorism financing and money laundering. The compliance function at the Bank has adapted its activity to the state of emergency and war, through a series of measures focused, among other matters, on the risks arising from the current situation.
- **Environmental risk:** Around the world, the understanding has grown in recent years that the materialization of environmental risks and climate risks may cause harm to the economy, and, in extreme cases, may cause significant damage to banks and to the financial system, as a result of the materialization of financial and non-financial risks in the long term. These effects may also be expressed within other risks to which the banking corporation is exposed in the course of its activity, such as credit risk (through the effect on the financial resilience of borrowers and the value of collateral), market and investment risk, operational risk, legal risk, reputational risk, and more. These risks, particularly climate risks and the impact of processes of transition to a low greenhouse-gas emissions economy, have unique characteristics of uncertainty. At this stage, it is too early to estimate the potential long-term effects of these changes on the Bank.

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

For details regarding legal proceedings, see [Note 10 to the Condensed Financial Statements](#).

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

B.5. Impacts of the Swords of Iron War

On October 7, 2023, the organization Hamas mounted a lethal terrorist attack on the State of Israel, consisting of rocket launches and a land invasion of military bases and civilian communities. The State of Israel declared a state of war and a massive call-up of more than 300,000 reserve soldiers; concurrently, security incidents also began to occur in Israel's north. With regard to economic conditions, in the third quarter, prior to the Swords of Iron War, a certain degree of deceleration of economic growth had been apparent for some time. Inflation and rising interest rates had impaired households' purchasing power, although the labor market remained tight and average wages continued to increase. Economic indicators such as revenues of the economic sectors pointed to cooling private consumption. Investments in high-tech companies remained significantly lower than in previous years; the real-estate sector also saw a low number of transactions, growth in the inventory of unsold homes, and slight price declines.

The outbreak of the war has changed the economic situation entirely. The missile fire extending to central Israel, the evacuation of towns in southern and northern Israel, the massive call-up of reserve military personnel, and the shutdown of the educational system have all disrupted economic activity. Commercial activity is partially shut down, and initial data on credit-card purchases show a steep drop in consumption, though the decrease can be expected to become more moderate over time.

The war, particularly to the extent that it is prolonged, has the potential to exert a negative effect on the Israeli economy, the customers of the Bank, and the Bank itself. Before the war, the principal risks to the economy stemmed from economic deceleration due to global circumstances, combined with a high interest rate, proposed regulatory changes, and the possible effects of the reform of the judicial system promoted without a broad consensus. The war has led to intensified risks, but for different reasons. The war, if prolonged, may lead, among other effects, to a continued decline in private consumption; a decrease in investments in the economy, including foreign investments and investments in the high-technology industry; a decrease in GDP; significant growth of the government deficit; a decrease in revenues in some economic sectors; damage to the tourism and construction industries; a decrease in real-estate prices; an increase in unemployment; damage to businesses; an increase in allowances for credit losses, as a result of these factors; market shocks, including depreciation; capital-market declines; changes in yield curves and in the interest rate of the central bank, affecting profitability; and more. The government has started to formulate plans to aid the business sector and households, similar to those of the Covid-19 period. The Israeli economy has accumulated financial robustness over the years, as demonstrated by parameters such as its low public debt, the surplus in the current account of the balance of payments, and high foreign-currency reserves, which are supporting the national economy at this time. The Bank's profitability level and its capital, liquidity, and leverage ratios were robust at the outbreak of the war, enabling it to withstand shocks. At this stage, the Bank cannot estimate how the war may develop, and all the more so its economic and financial effects, or the duration of such effects; accordingly, it is difficult to estimate the future impacts on the condition of the Bank's customers and on the Bank itself, while the government's support, the extent of which is unknown at this stage, also has potential economic effects.

To help customers cope with the impacts of the war, the bank announced a series of significant benefits, differentiating customers directly affected by the war from the rest of the population. These measures include benefits in line with the outline issued by the Banking Supervision Department, for a period of three months (following which an additional extension will be considered), as well as additional benefits beyond the outline. In the area of mortgages, the Bank has granted full exemption from mortgage payments for three months for customers in the Otef Aza region (in a range of 0-7 km from the border). This benefit is in addition to the option for other directly affected customers to suspend mortgage payments for three months at no cost, according to the outline of the Bank of Israel. The Bank has also established a credit fund in the amount of NIS 750 million for interest-free bridge loans, and is granting reduced-interest loans, three-month loan payment deferrals at no added cost for eligible private customers and businesses, exemptions from current-account fees and interest on negative balances for eligible customers, and more. For additional details regarding benefits granted by the Bank to its customers, see [the section "Operating segments based on the management approach" in the Corporate Governance Report](#). The estimated total amount of the aforesaid benefits, at this stage, will be affected by the rate of utilization of the benefits, and may reach approximately NIS 420 million with full utilization, most of which will be recorded to profit and loss when exercised by customers, beginning in the fourth quarter. The Bank is continuing to examine its policy regarding the benefits, and may expand them, taking into consideration the continuation and/or expansion of the war. The Bank has decided to donate a total of NIS 100 million, through the foundation of the Poalim Rebuild Fund, to help restore the community life of the families and businesses of the Otef Aza region. The cost of the fund will be spread over the exercise period in profit and loss. The fund will work to rebuild community infrastructures damaged by the war throughout Otef Aza, focusing on restoration for communities and residents in the areas of health care, resilience, education, and employment. The Bank is also working to support the needs of the society and community of Israel during the war through monetary donations and through volunteering by Bank employees. In addition, the Bank created a system for immediate needs and provided an emergency donation of NIS 10 million, designated for medical, physical, and mental aid and for the organization ZAKA, within which donations were given to rescue organizations, hospitals, and key social organizations, and aid was granted to displaced families and to IDF units. This adds to the tens of millions of shekels in community aid routinely given by the Bank every year. The Bank also acted to raise donations through the Bit app, where a sum of approximately NIS 7 million was collected for similar purposes.

In terms of credit risk, the Bank is regularly examining its exposure to the regions most affected by the fighting and its exposure to economic industries and sectors expected to be significantly hurt. These are sectors related to tourism and leisure, retail commerce in various sectors, and construction and real estate, which had already been affected by market conditions prior to the outbreak of the war, and is expected to be influenced by an additional decline in demand and difficulty in making progress on projects. As noted, the Bank cannot estimate the duration or developments of the war, and correspondingly the extent of damage in each of these areas. The impacts of the developments in economic conditions, as estimated by the Bank at this time, were reflected in the calculation of the collective allowance, and led to an increase in the provision for credit losses in a total amount of approximately NIS 662 million in the financial statements for the third quarter of 2023. For further details and for comments on the different scenarios for the development of the allowance for credit losses, see [the section "Credit risk,"](#) below.

In terms of market risks, with the outbreak of the war and the intervention of the Bank of Israel in the foreign-currency market, moderate depreciation occurred, which later receded, along with stock-market declines, high volatility in the interest-rate curve, and an increase in CDS debt insurance prices of the State of Israel. Market shocks, including depreciation, capital-market declines, and changes in yield curves and in the interest rate of the central bank, have the potential to negatively affect capital ratios, the profitability of the Bank, and fair value, as detailed in the section "Market risks," below. Note that at this stage, the market shocks have a minor effect on the profitability of the Bank. The depreciation that occurred at the outbreak of the war has since receded, and accordingly, near the date of publication of the financial statements, no material change has occurred in risk-adjusted assets and in the capital ratio, as estimated at this stage. The events that have occurred up to this point also have no material effect on liquidity ratios.

The credit rating agencies have reacted to the developments; Moody's and Fitch have placed Israel on a negative watch list, while S&P revised its sovereign debt rating outlook to Negative. Thus, there is a risk that the credit rating of the state may be downgraded in the near future. Ratings of Israeli banks, including the Bank, are influenced by the rating of the State of Israel; accordingly, some of the rating agencies have accorded similar status to the banks. If it occurs, a downgrade of the credit rating of the State of Israel by S&P may lead, as at the report date, to additional direct impairment of approximately 0.23% and approximately 0.29% in the common equity Tier 1 capital ratio and the total capital ratio of the Bank, respectively. There would also be likely indirect negative effects, including further depreciation; possible damage to liquidity in foreign currency; an increase in the yield curves of Israeli government bonds, and a subsequent increase in the Bank's funding costs; possible reduction of the activity of foreign financial institutions with Israeli banks; and negative financial impacts on the economy, the customers of the Bank, and the Bank itself.

With regard to the operations of the Bank, the Bank activated its business continuity plans as early as Saturday, the first day of the war, including through meetings of emergency teams; the transition of headquarters employees to remote work; closure of a few branches in conflict zones, and redirection of customers and employees to remote activity or other locations; adaptations of activity at other branches; operation of mobile branches; and continuous guidance to strengthen preparedness, with no substantial impairment of operations. The Bank is continually examining the situation and adapting its activity. The compliance system has adapted its activity to the conditions of the war and emergency, through a series of measures focused on compliance risks heightened by the state of war.

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

Note that beyond the risks described above, which may lead to an increase in credit losses and/or damage to profitability if the risk materializes, the future profitability of the Bank is also affected by the reliefs for customers and the various donations, the scope of which is expected to change according to the development of the war. At this stage, the events that have occurred to date have had no material effect on the capital, leverage, or liquidity ratios of the Bank.

B.6. Review of weighted risk-adjusted assets

Table B-3: Review of weighted risk-adjusted assets

	Risk-weighted assets		Minimum capital requirements*
	September 30, 2023	June 30, 2023	September 30, 2023
NIS millions			
1 Credit risk (standardized approach)**	380,557	374,332	51,375
6 Counterparty credit risk (standardized approach)	9,360	9,091	1,264
10 Credit valuation adjustment (CVA)	4,821	4,757	651
15 Settlement risk	-	-	-
16 Securitization exposures (standardized approach)	13	13	2
25 Amounts below deduction thresholds (subject to 250% risk weight)	9,220	8,798	1,245
Total credit risk	403,971	396,991	54,537
20 Market risk (standardized approach)	4,749	4,957	641
24 Operational risk	28,754	27,492	3,882
27 Total	437,474	429,440	59,060

* Capital requirements according to the minimum required total capital ratio, at a rate of 13.5%.

** Credit risk does not include counterparty credit risk, adjustment in respect of credit risk, settlement risk, securitization exposures, and amounts below the deduction thresholds.

C. Capital and leverage

C.1. Composition of capital

Table C-1: Composition of supervisory capital

	September 30, 2023	September 30, 2022	December 31, 2022	
	NIS millions			
Common equity Tier 1 capital				
Common equity Tier 1 capital – instruments and retained earnings				
1	Ordinary share capital issued by the banking corporation and premium on ordinary shares included in common equity Tier 1 capital	8,225	8,212	8,212
2	Retained earnings, including dividends proposed or declared after the balance sheet date	44,848	40,132	41,346
3	Accumulated other comprehensive income and disclosed retained earnings	(2,821)	(3,276)	(3,056)
6	Common equity Tier 1 capital before supervisory adjustments and deductions	50,252	45,068	46,502
Common equity Tier 1 capital – supervisory adjustments and deductions				
10	Deferred tax assets, realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	3	19	4
14	Unrealized profits and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the banking corporation	31	31	17
21	Deferred tax assets arising from timing differences in amounts exceeding 10% of common equity Tier 1 capital	-	-	-
26	Additional supervisory adjustments and deductions established by the Banking Supervision Department	(242)	(244)	(264)
26C	Of which: additional supervisory adjustments to common equity Tier 1 capital	(242)	(244)	(264)
26C	Of which: in respect of the efficiency plans	(88)	(158)	(141)
26C	Of which: in respect of wage tax	-	-	-
26C	Of which: in respect of the business of the corporation with related persons	-	159	123
26C	Of which: in respect of expected credit losses	(183)	(274)	(274)
26C	Of which: in respect of non-accruing housing loans	29	29	28
28	Total supervisory adjustments and deductions in common equity Tier 1 capital	(208)	(194)	(243)
29	Common equity Tier 1 capital	50,460	45,262	46,745
45	Tier 1 capital	50,460	45,262	46,745

Table C-1: Composition of supervisory capital (continued)

	September 30, 2023	September 30, 2022	December 31, 2022	
	NIS millions/percent			
Tier 2 capital				
Tier 2 capital – instruments and provisions				
46	Instruments issued by the banking corporation (not included in Tier 1 capital) and premium on such instruments	8,793	4,323	5,281
48	Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	-	4,200	4,236
50	Collective allowances for credit losses before the effect of related tax	5,067	4,729	4,832
51	Tier 2 capital before deductions	13,860	13,252	14,349
Tier 2 capital – deductions				
57	Total supervisory adjustments to Tier 2 capital	-	-	-
58	Tier 2 capital	13,860	13,252	14,349
59	Total capital	64,320	58,514	61,094
Risk-weighted assets				
	Total risk-weighted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	436,952	407,569	415,256
	Of which: credit risk assets	403,449	377,997	386,229
	Of which: market risk assets	4,749	5,658	4,007
	Of which: operational risk assets	28,754	23,914	25,020
60	Total risk-weighted assets	437,474	407,914	415,577
Capital ratios and capital preservation cushions				
61	Common equity Tier 1 capital	11.53%	11.10%	11.25%
62	Tier 1 capital	11.53%	11.10%	11.25%
63	Total capital	14.70%	14.34%	14.70%
Minimum requirements established by the Banking Supervision Department				
69	The required minimum common equity Tier 1 capital ratio is 10%. A capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief was granted under the Temporary Order.	10.23%	10.23%	10.23%
71	The required minimum total capital ratio is 13.5%.	13.50%	13.50%	13.50%
Amounts below the deduction threshold (before risk weighting)				
72	Investments in the capital of financial corporations which do not exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	762	482	480
73	Investments in the capital of financial corporations which exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	113	107	105
75	Deferred tax assets arising from timing differences, below the deduction threshold	3,716	3,402	3,436
Ceiling for inclusion of provisions in Tier 2				
76	Provision qualifying for inclusion in Tier 2, with reference to exposures under the standardized approach, before application of the ceiling	6,476	4,901	5,198
77	Ceiling for inclusion of provision in Tier 2 under the standardized approach	5,067	4,729	4,832

C.2. Capital adequacy

C.2.a. The Bank's approach to capital-adequacy assessment

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

The capital measurement and adequacy directives are based on three pillars:

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

The Basel Committee on Banking Supervision is applying updates to the framework for capital-adequacy measurement, sometimes referred to as "Basel 4." Significant updates have been established in connection with the method of calculating risk-adjusted assets in respect of which capital requirements are required to be calculated in Pillar 1. The standards included in the update are expected to be implemented in the European Union in 2025.

In accordance with its policy of adopting prevalent international standards, the Banking Supervision Department has adopted the directives of the Basel Committee of 2017 on the subject of the calculation of credit requirements in respect of operational risk. On December 29, 2022, the Banking Supervision Department issued a draft update of Proper Conduct of Banking Business Directive 206, "Capital Measurement and Adequacy – Operational Risk." The draft establishes an updated definition for the calculation of the capital allocation in respect of operational risk, such that it is based, among other things, on components of the business indicator described in the draft and on an internal loss multiplier based on the average historical losses of the banking corporation. Pursuant to the draft, implementation of the directive will begin on January 1, 2026.

C.2.b. Capital-adequacy target and capital planning and management

Pursuant to the directives of the Banking Supervision Department, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 10.0% and a minimum total capital ratio of 13.5%. A capital requirement is added to the common equity Tier 1 capital ratio at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief was granted under the Temporary Order aimed at coping with the coronavirus crisis. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank required by the Banking Supervision Department, on a consolidated basis, as at September 30, 2023, stand at 10.23% and 13.50%, respectively.

The common equity Tier 1 capital target established by the Bank takes into consideration, among other matters, the results of the internal processes of the Bank for determining capital targets, including the results of internal stress tests run by the Bank, and the outcomes of discussions held with the Banking Supervision Department regarding the specific risk attributes of the Bank, within the most recent supervisory review process and the most recent uniform stress tests performed.

In order to comply with the capital-adequacy target and manage capital effectively, capital planning is performed at the Bank based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Bank also routinely monitors actual results as compared to planning, and the gaps between results and planning, and, as necessary, examines the actions needed in order to comply with the established capital targets. As part of the establishment of the internal capital targets of the Bank, as detailed below, the policy of the Bank is to maintain capital adequacy at a level higher than the minimum ratio required by the Banking Supervision Department, and not lower than the level of capital adequacy required to cover the risks as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Bank examines the effect of stress scenarios on capital-adequacy ratios; accordingly, plans are in place for preparedness to return to regulatory capital adequacy in the case of such a stress event.

Based on the processes of establishment of internal capital targets of the Bank and the results of the internal discussions held with the Banking Supervision Department (as described above), the Board of Directors of the Bank set an internal target for the common equity Tier 1 capital ratio at a rate of no less than 10.5%.

The Bank manages its capital-adequacy ratio with the aim of complying with the minimum capital requirements of the Banking Supervision Department and with the internal target, while maintaining safety margins.

The capital of the Bank and the volume of risk-adjusted assets are subject to changes, due to the following factors, among others:

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

The sensitivity of the capital reserve in respect of bonds available for sale, net, after tax effect, to a theoretical increase of 1% in the risk-free yield curve and in the credit risk spread is estimated at a decrease in the amount of approximately NIS 0.9 billion and approximately NIS 0.7 billion, respectively. By contrast, the sensitivity of the capital reserve arising from adjustments for actuarial changes, net, after tax effect, to a theoretical increase of 1% in the discount rate is estimated at an increase in the amount of approximately NIS 0.2 billion. Capital requirements in respect of the exposures of the Bank to the government of Israel, Israeli banks, institutional entities, and public-sector entities are derived from the rating of the State of Israel.

The direct effect of a downgrade of the credit rating of the State of Israel by Standard & Poor's Rating Group, if it occurs, would lead to a reduction of 0.23% and 0.29% in the Tier 1 capital ratio and the total capital ratio, respectively. As stated in the section "Economic review," above, the credit-rating agencies Fitch and Moody's have decided to place Israel on negative watch lists. The credit-rating agency S&P has downgraded its sovereign debt rating outlook to Negative. The risk premium of the State of Israel on the international debt market has risen. The Bank estimates that the risk of an actual rating downgrade by one or more of the rating agencies has increased.

Dividends

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

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

On May 22, 2023, the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 803 million, which constituted approximately 40% of the net profit of the Bank for the first quarter of 2023, paid on June 14, 2023.

On August 14, 2023, the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 769 million, which constituted approximately 40% of the net profit of the Bank for the second quarter of 2023, paid on September 6, 2023.

On November 12, 2023, the Banking Supervision Department issued a guideline concerning capital planning and profit distribution policy pursuant to which banking corporations are required to reexamine their dividend distribution policies for the coming period, in view of the war and the increase in uncertainty with regard to its duration and the scope of its effect on the economy.

With due attention to the Bank's significant capital surpluses in relation to the various capital requirements, and concurrently to the aforesaid guideline of the Banking Supervision Department in an uncertain environment, the Board of Directors of the Bank resolved, at the date of approval of these financial statements, to declare the distribution of dividends in the amount of NIS 334 million, constituting approximately 20% of the net profit of the Bank for the third quarter of 2023, to be paid on December 6, 2023.

C.2.c. Implementation of regulatory directives with an effect on measurement and capital-adequacy matters

Improving operational efficiency

The circulars of the Banking Supervision Department grant reliefs to banks that apply improvements in efficiency, with respect to personnel and to real estate.

The total volume of the personnel efficiency plan from 2020 to which the reliefs apply is NIS 352 million, net of tax effect.

The effect of the aforesaid plans was recorded to capital, and, for the purposes of calculation of the capital ratio and leverage ratio, deducted from supervisory capital over a period of five years from the date of beginning of implementation of each plan.

The remaining effect of the reliefs in respect of the efficiency plans on the common equity Tier 1 capital ratio is estimated at approximately 0.02% as at September 30, 2023.

The subsidiary of the Bank in Turkey

Until recently, the Bank Group held 100% of the share capital of Bank Pozitif, in Turkey, which is engaged in corporate banking.

On March 30, 2023, the Bank entered into an agreement for the sale of its holding in Bank Pozitif, for a consideration primarily consisting of repayment of credit granted to Bank Pozitif at the time of completion of the transaction.

On September 13, 2023, the transaction was completed and the holdings of the Bank in Bank Pozitif were transferred to the buyer, in consideration for repayment of the credit granted to Bank Pozitif. The Bank recorded no profit or loss as a result of the completion of the transaction. The effect of the completion of the transaction on the common equity Tier 1 capital ratio of the Bank as at September 30, 2023, amounts to an increase of 0.05%.

Notes with a loss-absorption mechanism

For additional information regarding the subordinated notes, see [Note 9J to the Condensed Financial Statements](#).

Circular updating Proper Conduct of Banking Business Directive 203, “Capital Measurement and Adequacy – Standardized Approach – Credit Risk”

A circular updating Proper Conduct of Banking Business Directive 203, “Capital Measurement and Adequacy – Standardized Approach – Credit Risk,” was issued on May 22, 2022. Pursuant to the circular, loans designated for the acquisition of land for the purpose of development or construction at a rate exceeding 80% of the value of the acquired asset (LTV) are added to the list of loans risk weighted at 150%, with the exception of loans for the acquisition of agricultural land with no planning horizon or intention to apply for a change in designation. The effect of the circular was spread over equal quarterly installments, from September 30, 2022, to implementation of the full effect on June 30, 2023. A questions and answers document was released on January 26, 2023, containing clarifications regarding the implementation of the circular.

A circular on the subject, “Adjustments of the Proper Conduct of Banking Business Directives to Cope with the Swords of Iron War (Temporary Order)” was issued on October 31, 2023. The circular includes a relief with regard to Proper Conduct of Banking Business Directive 203, clarifying that an increase in the financing rate of loans intended for the purchase of land for development or construction purposes above a threshold of 80% as a result of interest accrued up to December 31, 2023, due to a grace period granted after October 7, 2023, should not be taken into account in calculating the financing rate.

C.3. Leverage ratio

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

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

On November 15, 2020, the Banking Supervision Department issued a circular, as a temporary order, updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations must maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system (the Bank is such a banking corporation) must maintain a leverage ratio of no less than 5.5% (instead of 6.0% prior to the relief).

The period of the relief has been extended until December 31, 2023; after that date, the requirement is to return to the leverage ratio required prior to the Temporary Order (6.0%) within two quarters.

Table C-2: Comparison of balance sheet assets to exposure measurement, for the purposes of the leverage ratio

	September 30, 2023	September 30, 2022	December 31, 2022
	NIS millions		
Total consolidated assets as per published financial statements	675,988	658,336	665,353
Adjustment for investments in banking, financial, insurance, or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-	-
Adjustment for fiduciary assets recognized in the balance sheet pursuant to the Public Reporting Directives, but excluded from the leverage ratio exposure measurement	-	-	-
Adjustments for derivative financial instruments	(312)	(2,620)	801
Adjustments for securities financing transactions	-	-	-
Adjustments for off-balance sheet items	70,337	72,741	70,140
Other adjustments	(156)	4,471	821
Exposure for the purposes of the leverage ratio	745,857	732,928	737,115

Table C-3: Leverage ratio disclosure

	September 30, 2023	September 30, 2022	December 31, 2022
	NIS millions/percent		
On-balance sheet exposures			
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	629,120	623,290	628,537
Asset amounts deducted in determining Tier 1 capital	(3)	(19)	(4)
Total on-balance sheet exposures (excluding derivatives and securities financing transactions)	629,117	623,271	628,533
Derivative exposures			
Replacement cost associated with all derivatives transactions	5,704	8,148	5,142
Add-on amounts for potential future exposure associated with all derivatives transactions	21,947	17,779	17,491
Gross-up for collateral provided in respect of derivatives deducted from balance sheet assets pursuant to the Public Reporting Directives	-	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	-	-	-
Exempted central counterparty leg of client-cleared trade exposures	-	-	-
Adjusted effective notional amount of written credit derivatives	-	-	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-	-
Total derivative exposures	27,651	25,927	22,633
Securities financing transaction exposures			
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions	18,752	10,989	15,809
Netted amounts of cash payables and cash receivables of gross securities financing transaction assets	-	-	-
Central counterparty credit risk exposure for securities financing transaction assets	-	-	-
Agent transaction exposures	-	-	-
Total securities financing transaction exposures	18,752	10,989	15,809
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	213,650	221,848	210,369
Adjustments for conversion to credit equivalent amounts	(143,313)	(149,107)	(140,229)
Off-balance sheet items	70,337	72,741	70,140
Capital and total exposures			
Tier 1 capital*	50,460	45,262	46,745
Total exposures*	745,857	732,928	737,115
Leverage ratio			
Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218	6.77%	6.18%	6.34%
Minimum leverage ratio required by the Banking Supervision Department in the period of the Temporary Order	5.50%	5.50%	5.50%
Minimum leverage ratio required by the Banking Supervision Department after the end of the Temporary Order	6.00%	6.00%	6.00%

* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see [Note 9H to the Condensed Financial Statements](#)). The effect of the relief in respect of the efficiency plans on the leverage ratio as at September 30, 2023, estimated at an additional future decrease of approximately 0.01%, is recorded in equal parts over five years, from their inception date until December 31, 2024. In addition, the data include adjustments in respect of the effect of the implementation of accounting principles concerning current expected credit losses, which are to be gradually reduced until December 31, 2024. The effect of the relief in respect of current expected credit losses as at September 30, 2023, is estimated at an additional future decrease of approximately 0.03%.

D. Credit risk

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

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

Activities that create credit risk include:

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

The credit risk arising from transactions in derivative financial instruments is defined as counterparty risk, which is the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. For information regarding counterparty credit risk and the management thereof, see [the section "Counterparty credit risks,"](#) below.

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

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

The collective allowance for credit losses included in the financial statements is based on weighting of the effect of three forecasts: baseline, optimistic, and pessimistic. Macroeconomic forecasts were revised to reflect the effects of the war, and express a material effect on economic conditions. According to the baseline forecast, economic activity will decline sharply in the first six months, and as a result, the unemployment rate, which was low prior to the outbreak of the war, is expected to rise moderately. Post-war recovery is expected to be slow relative to the growth potential of the economy, influenced by the deterioration of fiscal conditions and weakness in two key economic sectors: high-tech and real estate. No significant change is expected in inflation relative to forecasts from prior to the war. The assumption is that the trajectory for the reduction of the interest rate in 2024 will be faster than estimated before the war. In the real-estate market, the price declines that had emerged before the war are expected to intensify. The collective allowance reflects these effects and stands at approximately NIS 6.8 billion as at September 30, 2023, compared with approximately NIS 5.7 billion as at December 31, 2022.

For the purpose of analysis of the sensitivity of the collective allowance to different assumptions, the calculation of the collective allowance based solely on the pessimistic forecast would lead to an increase of approximately NIS 0.75 billion, beyond the allowance included in these financial statements, and the calculation of the collective allowance based solely on the optimistic forecast would lead to a decrease of NIS 0.59 billion in the collective allowance. This range indicates the level of uncertainty with regard to the effect of the state of war on the credit portfolio of the Bank. It is emphasized that the pessimistic scenario does not constitute an extreme scenario.

The Bank is examining its exposure to the regions most affected by the fighting, and performing assessments regarding economic sectors likely to be significantly hurt. These are sectors related to tourism and leisure, retail commerce in various sectors, and construction and real estate, which had already been affected by market conditions prior to the outbreak of the war, and is expected to be influenced by an additional decline in demand and difficulty in making progress on projects. As noted, the Bank cannot estimate the duration or developments of the war, and correspondingly the extent of damage in each of these areas.

In accordance with the decision of the Bank and the instructions of the Bank of Israel, the Bank is working to support its customers during this period and offering solutions such as deferral of payments, as well as waivers of payments for certain population groups; rescheduling loans over longer periods; reliefs in connection with credit facilities of current accounts and current drawing accounts; larger credit facilities; and targeted loans for specific population groups. For additional details, see [the section "Operating segments based on the management approach" in the Corporate Governance Report.](#)

Table D-1: Details regarding debt modifications

As described in the section "Impacts of the Swords of Iron War" above, the Bank is allowing customers to defer loan payments, in accordance with the outline of the Bank of Israel or other outlines at the initiative of the Bank. The following are details regarding debt modifications made near the date of the report.

	Debts in payment deferral near the report date*			
	Recorded debt balance	Of which: non-interest-bearing deferrals	Number of loans	Amount of deferred payments
	NIS millions		Units	NIS millions
Large businesses	1,814	-	121	70
Mid-sized businesses	1,398	4	316	95
Small businesses	3,821	434	15,902	367
Private individuals excluding housing	1,664	250	30,130	182
Housing loans	9,092	3,064	13,043	211
Total	17,789	3,752	59,512	925

* Debts regarding which an application to defer payments has been approved, even if the payment date has not yet arrived.

In addition to the option to defer loan payments, as described above, the Bank has granted full exemption from mortgage payments for three months for customers in the Otef Aza region (in a range of 0-7 km from the border).

D.1. Credit quality of credit exposures

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

Table D-2: Credit risk indicators

	As at							
	September 30, 2023				December 31, 2022			
	Commercial	Private individuals – housing loans	Private individuals – other	Total	Commercial	Private individuals – housing loans	Private individuals – other	Total
Analysis of quality of credit to the public								
Non-accruing credit as a percentage of the balance of credit to the public	1.25%	0.54%	0.60%	0.97%	1.15%	0.45%	0.60%	0.87%
Balance of credit to the public, non-accruing or past due by 90 days or more, as a percentage of the balance of credit to the public	1.32%	0.54%	0.76%	1.02%	1.17%	0.45%	0.72%	0.89%
Problematic credit as a percentage of the balance of credit to the public	2.53%	0.54%	1.85%	1.84%	2.24%	0.45%	1.90%	1.63%
Credit not at credit execution rating as a percentage of the balance of credit to the public	4.62%	1.07%	9.11%	3.87%	5.10%	1.02%	9.44%	4.16%
Analysis of provision for credit losses in the reported period								
Provision for credit losses as a percentage of the average balance of credit to the public	0.60%	0.08%	1.07%	0.47%	(0.08%)	0.06%	0.11%	(0.02%)
Net charge-offs as a percentage of the average balance of credit to the public	0.06%	0.01%	0.42%	0.08%	(0.05%)	-	0.07%	(0.03%)
Analysis of allowance for credit losses in respect of credit to the public								
Total allowance for credit losses* as a percentage of credit to the public	2.43%	0.45%	3.12%	1.86%	2.17%	0.41%	2.64%	1.64%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public	2.07%	0.42%	3.03%	1.63%	1.80%	0.38%	2.55%	1.41%
Allowance for credit losses as a percentage of the balance of non-accruing credit to the public	165.3%	78.5%	505.7%	167.9%	156.4%	83.8%	427.1%	160.7%
Allowance for credit losses as a percentage of the balance of credit to the public, non-accruing or past due by 90 days or more	156.9%	78.5%	399.6%	159.1%	154.2%	83.8%	353.2%	156.9%
Ratio of allowance for credit losses to net charge-offs	33.6	46.3	7.2	21.5	(34.6)	243.5	39.0	(58.3)

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

Note:

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

Portfolio quality analysis

Most credit risk indicators have worsened. Some of the indicators are influenced by the increase in the collective allowance, which reflects the future effects of worsening economic conditions. However, indicators such as the percentage of problematic debt and the percentage of non-accruing debt have also worsened. From a historical perspective, these indicators are relatively low, indicating good portfolio quality, as a strong point of origin for the predicted deterioration of economic conditions.

The indicator of the provision for credit losses as a percentage of the average balance of credit to the public and the indicator of net charge-offs as a percentage of the average balance of credit to the public increased, reflecting, among other matters, the effects of the economic environment, as well as predicted effects of the war.

Table D-3: Credit quality of credit exposures

		September 30, 2023			
		Gross balances		Allowances	Net
		Non-accruing or past due by 90 days or more	Others	for credit losses or impairment	balances
		NIS millions			
1	Debts, excluding bonds	4,205	425,474	6,717	422,962
2	Bonds	-	132,597	14	132,583
3	Off-balance sheet exposures	685	211,750	953	211,482
4	Total	4,890	769,821	7,684	767,027
		September 30, 2022			
		Gross balances		Allowances	Net
		Non-accruing or past due by 90 days or more	Others	for credit losses or impairment	balances
		NIS millions			
1	Debts, excluding bonds	3,109	399,612	5,217	397,504
2	Bonds	-	86,086	13	86,073
3	Off-balance sheet exposures	815	220,052	838	220,029
4	Total	3,924	705,750	6,068	703,606
		December 31, 2022			
		Gross balances		Allowances	Net
		Non-accruing or past due by 90 days or more	Others	for credit losses or impairment	balances
		NIS millions			
1	Debts, excluding bonds	3,527	410,005	5,564	407,968
2	Bonds	-	103,369	17	103,352
3	Off-balance sheet exposures	813	208,507	935	208,385
4	Total	4,340	721,881	6,516	719,705

For further details, see [Table 3-3: Additional information regarding changes in non-accruing credit to the public, in the Report of the Board of Directors and Board of Management.](#)

D.2. Credit risk exposures

D.2.a. Details of exposures by economic sector

Table D-4: Details of exposures by economic sector in Israel

	September 30, 2023									
	Total credit risk ⁽¹⁾			Debts ⁽²⁾ and off-balance sheet credit risk (excluding derivatives) ⁽³⁾						
	Total	Credit execution rating ⁽⁵⁾	Problematic ⁽⁶⁾	Total	Of which: Problematic ⁽⁶⁾ debts ⁽²⁾	Non-accruing	Credit losses for the three-month period ended September 30, 2023 ⁽⁴⁾			
Provision (income) for credit losses							Net charge-offs	Allowance for credit losses		
NIS millions										
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	3,198	3,070	25	3,192	2,704	25	3	4	(5)	55
Mining and quarrying	1,464	968	491	1,438	880	491	473	2	-	186
Industry	32,702	31,743	544	31,795	16,852	544	210	24	-	359
Construction and real estate – construction ⁽⁷⁾	102,717	99,753	2,193	102,451	49,158	2,193	936	224	13	1,046
Construction and real estate – real-estate activities	42,073	41,461	100	41,634	33,670	100	65	300	(16)	949
Electricity and water supply	14,621	14,256	229	14,095	8,938	229	47	(104)	51	351
Commerce	39,311	37,693	671	39,143	29,929	671	376	183	22	487
Hotels, hospitality, and food services	11,745	10,870	528	11,708	9,934	528	419	271	9	449
Transportation and storage	12,168	11,342	441	12,049	9,005	438	94	38	13	381
Information and communications	7,471	6,954	158	7,323	5,166	158	138	(42)	(16)	112
Financial services	54,144	53,948	9	38,564	29,373	9	6	(24)	5	151
Other business services	16,909	15,755	189	16,729	10,980	189	104	72	23	294
Public and community services	9,707	9,071	378	9,680	6,938	378	363	86	14	320
Total commercial ⁽⁸⁾	348,230	336,884	5,956	329,801	213,527	5,953	3,234	1,034	113	5,140
Private individuals – housing loans	136,311	134,929	697	136,311	130,238	697	697	78	9	583
Private individuals – other	56,206	52,844	653	56,173	35,132	653	212	280	110	1,098
Total public – activity in Israel	540,747	524,657	7,306	522,285	378,897	7,303	4,143	1,392	232	6,821
Banks in Israel ⁽⁹⁾	1,298	1,297	-	1,134	393	-	-	1	-	2
Israeli government	93,589	92,284	-	1,738	1,734	-	-	-	-	-
Total activity in Israel	635,634	618,238	7,306	525,157	381,024	7,303	4,143	1,393	232	6,823

(1) Balance sheet credit risk and off-balance sheet credit risk,⁽³⁾ including in respect of derivative instruments. Includes debts,⁽²⁾ bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 381,024; 91,328; 886; 2,245; and 160,151 million, respectively.

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

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

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

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

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

(7) Including balance sheet credit risk in the amount of approximately NIS 533 million and off-balance sheet credit risk in the amount of approximately NIS 625 million extended to certain purchasing groups currently in the process of construction.

(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 83 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table D-3: Details of exposures by economic sector in Israel (continued)

	December 31, 2022									
	Total credit risk ⁽¹⁾			Debts ⁽²⁾ and off-balance sheet credit risk (excluding derivatives) ⁽³⁾						
	Total	Credit execution rating ⁽⁵⁾	Problematic ⁽⁶⁾	Total	Of which: Problematic ⁽⁶⁾ debts ⁽²⁾	Non-accruing	Credit losses for the year ended December 31, 2022 ⁽⁴⁾			
Provision (income) for credit losses							Net charge-offs	Allowance for credit losses		
NIS millions										
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	3,393	3,261	23	3,380	2,820	23	3	(25)	(37)	48
Mining and quarrying	1,754	1,138	612	1,754	1,142	612	610	(533)	-	184
Industry	31,481	30,570	487	30,919	16,637	485	157	70	(23)	335
Construction and real estate – construction ⁽⁷⁾	101,927	99,490	1,007	101,819	47,152	1,007	610	(165)	(79)	834
Construction and real estate – real-estate activities	36,900	36,325	109	36,643	30,844	109	72	173	(56)	635
Electricity and water supply	13,714	13,249	291	13,127	7,175	291	107	49	39	512
Commerce	39,133	37,566	582	38,954	28,179	582	242	(23)	5	323
Hotels, hospitality, and food services	11,567	10,353	182	11,546	9,999	182	117	(7)	(6)	185
Transportation and storage	12,891	11,944	529	12,794	8,853	526	237	121	12	358
Information and communications	7,551	6,866	144	7,501	5,213	144	131	31	(11)	142
Financial services	51,736	51,521	29	38,237	27,684	29	22	(128)	(4)	184
Other business services	17,243	15,949	252	17,106	11,298	252	116	84	13	247
Public and community services	9,089	8,403	407	9,083	6,801	407	387	57	6	246
Total commercial ⁽⁸⁾	338,379	326,635	4,654	322,863	203,797	4,649	2,811	(296)	(141)	4,233
Private individuals – housing loans	134,643	133,342	572	134,643	127,527	572	572	72	2	515
Private individuals – other	52,896	49,437	670	52,892	35,054	670	211	40	22	927
Total public – activity in Israel	525,918	509,414	5,896	510,398	366,378	5,891	3,594	(184)	(117)	5,675
Banks in Israel ⁽⁹⁾	1,391	1,391	-	1,206	255	-	-	1	-	1
Israeli government	68,613	68,613	-	771	768	-	-	-	-	-
Total activity in Israel	595,922	579,418	5,896	512,375	367,401	5,891	3,594	(183)	(117)	5,676

(1) Balance sheet credit risk and off-balance sheet credit risk, ⁽³⁾ including in respect of derivative instruments. Includes debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 367,401; 67,788; 316; 2,468; and 157,949 million, respectively.

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

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

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

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

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

(7) Including balance sheet credit risk in the amount of approximately NIS 447 million and off-balance sheet credit risk in the amount of approximately NIS 628 million extended to certain purchasing groups currently in the process of construction.

(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 72 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table D-3: Details of exposures by economic sector in Israel (continued)

	September 30, 2023									
	Total credit risk ⁽¹⁾			Debts ⁽²⁾ and off-balance sheet credit risk (excluding derivatives) ⁽³⁾						
	Total credit risk ⁽¹⁾	Of which: credit execution rating ⁽⁵⁾	Of which: problematic credit risk ⁽⁶⁾	Total	Of which: debts ⁽²⁾	Problematic ⁽⁶⁾	Non-accruing	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
Credit losses for the three-month period ended September 30, 2023 ⁽⁴⁾										
NIS millions										
In respect of borrower activity overseas										
Public – commercial										
Agriculture	186	186	-	186	186	-	-	-	-	-
Mining and quarrying	782	782	-	391	104	-	-	(9)	-	5
Industry	3,627	3,550	50	2,510	1,536	50	-	(1)	6	22
Construction and real estate	16,137	14,578	877	16,078	10,854	877	369	12	(1)	537
Electricity and water supply	1,668	1,629	-	1,239	394	-	-	4	-	9
Commerce	3,619	3,555	64	3,372	2,687	64	-	(6)	-	29
Hotels, food services, and hospitality	4,619	4,196	134	4,616	3,283	134	134	20	-	120
Transportation and storage	1,177	1,141	36	863	770	36	-	3	-	17
Information and communications	3,312	3,251	62	2,876	2,290	62	13	5	-	22
Total financial services	14,910	14,908	-	6,230	5,321	-	-	3	(5)	21
Other business services	1,537	1,324	212	1,536	1,042	212	-	(1)	-	15
Public services	3,498	3,498	-	3,347	2,975	-	-	6	-	28
Total commercial	55,072	52,598	1,435	43,244	31,442	1,435	516	36	-	825
Private individuals – housing loans	659	637	10	659	633	10	10	-	-	5
Private individuals – other	246	242	-	246	89	-	-	2	1	1
Total public – activity overseas	55,977	53,477	1,445	44,149	32,164	1,445	526	38	1	831
Banks overseas ⁽⁷⁾	25,344	25,338	-	15,375	14,839	-	-	5	-	15
Governments overseas	30,060	29,796	-	1,692	1,651	-	-	(7)	-	15
Total activity overseas	111,381	108,611	1,445	61,216	48,654	1,445	526	36	1	861
Total in Israel and overseas	747,015	726,849	8,751	586,373	429,678	8,748	4,669	1,420	233	7,684

(1) Balance sheet credit risk and off-balance sheet credit risk,⁽³⁾ including in respect of derivative instruments. Includes debts,⁽²⁾ bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 48,654; 41,269; 367; and 21,091 million, respectively.

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

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

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

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

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

(7) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

Table D-3: Details of exposures by economic sector in Israel (continued)

	December 31, 2022										
	Total credit risk ⁽¹⁾			Debts ⁽²⁾ and off-balance sheet credit risk (excluding derivatives) ⁽³⁾						Credit losses for the year ended December 31, 2022 ⁽⁴⁾	
	Total credit risk ⁽¹⁾	Of which: credit execution rating ⁽⁵⁾	Of which: problematic credit risk ⁽⁶⁾	Total	Of which: debts ⁽²⁾	Problematic ⁽⁶⁾	Non-accruing	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses	
NIS millions											
In respect of borrower activity overseas											
Public – commercial											
Agriculture	164	164	-	164	164	-	-	-	-	1	
Mining and quarrying	763	763	-	369	64	-	-	2	-	12	
Industry	3,940	3,924	16	2,609	1,662	16	-	(19)	(3)	17	
Construction and real estate	13,650	12,019	838	13,546	9,781	837	558	96	16	527	
Electricity and water supply	1,177	1,130	-	762	179	-	-	(5)	-	4	
Commerce	3,667	3,627	41	3,332	2,705	41	41	23	(2)	37	
Hotels, food services, and hospitality	3,747	2,840	635	3,747	2,978	635	6	8	-	107	
Transportation and storage	1,024	932	70	787	678	70	29	7	-	29	
Information and communications	2,583	2,570	13	2,214	1,821	13	13	1	2	18	
Total financial services	10,062	10,060	1	4,480	3,782	1	1	(12)	-	12	
Other business services	1,535	1,314	222	1,536	1,091	222	-	9	8	16	
Public services	2,861	2,858	2	2,673	2,323	2	2	10	-	23	
Total commercial	45,173	42,201	1,838	36,219	27,228	1,837	650	120	21	803	
Private individuals – housing loans	631	614	9	631	578	9	9	(1)	-	4	
Private individuals – other	220	213	1	220	78	1	-	-	1	1	
Total public – activity overseas	46,024	43,028	1,848	37,070	27,884	1,847	659	119	22	808	
Banks overseas ⁽⁷⁾	27,239	27,238	-	17,608	16,837	-	-	9	-	10	
Governments overseas	25,760	25,669	-	1,541	1,410	-	-	21	-	22	
Total activity overseas	99,023	95,935	1,848	56,219	46,131	1,847	659	149	22	840	
Total in Israel and overseas	694,945	675,353	7,744	568,594	413,532	7,738	4,253	(34)	(95)	6,516	

(1) Balance sheet credit risk and off-balance sheet credit risk,⁽³⁾ including in respect of derivative instruments. Includes debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 46,131; 35,581; 582; 285; and 16,444 million, respectively.

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

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

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

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

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

(7) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

Table D-5: Exposure of the Bank Group to foreign financial institutions⁽¹⁾

	September 30, 2023			December 31, 2022		
	Balance sheet credit risk ⁽²⁾	Present off-balance sheet credit risk ⁽³⁾	Total present credit risk	Balance sheet credit risk ⁽²⁾	Present off-balance sheet credit risk ⁽³⁾	Total present credit risk
NIS millions						
External credit rating⁽⁴⁾						
AAA to AA-	6,355	10,230	16,585	4,906	11,504	16,410
A+ to A-	10,076	9,995	20,071	8,178	10,719	18,897
BBB+ to BBB-	59	33	92	101	96	197
BB+ to B-	1	10	11	5	-	5
Lower than B-	-	-	-	-	-	-
Unrated	123	96	219	339	66	405
Total present credit exposures to foreign financial institutions	16,614	20,364	36,978	13,529	22,385	35,914

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

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

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

Note that the rapid rise in interest rates over the last year led to liquidity shortages among commercial banks, mainly in the United States, in the first quarter of 2023. During that quarter, several regional banks in the United States collapsed, and a crisis developed at Credit Suisse, which was later acquired by UBS. This trend halted in the second quarter of 2023.

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

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 37.0 billion on September 30, 2023, an increase of approximately NIS 1.1 billion, compared with approximately NIS 35.9 billion at the end of 2022. This increase mainly resulted from an increase in the amount of approximately NIS 3.1 billion in balance-sheet exposure, mainly as a result of an increase in securities of foreign financial institutions. An offsetting effect of a decrease of approximately NIS 1.1 billion in off-balance sheet exposure was recorded as a result of a decrease in guarantees and credit facilities provided to financial institutions. Approximately 99.1% of the exposure to foreign financial institutions is to financial institutions rated A- or higher. The Bank Group's exposure to foreign financial institutions is distributed as follows: 39.1% in banks and bank holding companies, 55.2% in insurance companies, and 5.7% in another financial institution. The exposure of the Bank Group is to foreign financial institutions operating in Western European countries (64.4%), the United States (29.6%), and South and East Asian countries (6.0%).

D.3. Additional information regarding exposures to credit risks

D.3.a. Construction and real estate

A significant deceleration in activity was recorded in the real-estate sector in the first nine months of 2023, reflected in a low number of transactions, growth in the inventory of unsold homes, and slight price declines. According to data from the Central Bureau of Statistics, the volume of transactions in new homes decreased steeply in January-August, by approximately 31% year-on-year, and the inventory of unsold new homes grew to 59 thousand in August 2023, an increase of approximately 12 thousand homes compared with August last year. Interest-rate increases have reduced households' ability to buy homes and lowered purchases by investors. Data of the Central Bureau of Statistics indicate a cumulative decrease of 3.8% in prices of new homes since September 2022, and a decrease of 1.9% in the index of overall prices of homes in the last two months. These data do not weigh in benefits sometimes granted at the time of purchase; therefore, actual decreases in prices may be greater.

Due to the outbreak of the Swords of Iron War, the construction and real-estate industry is expected to be exposed to additional damage, beyond the macroeconomic effects described above, such as further damage to demand for purchases of homes and difficulties in making progress on projects due to labor shortages. These possible effects, as estimated at the report date, are reflected in the calculation of the collective allowance.

The Bank is continuing to examine the potential implications of the changes in the economic environment, and will perform additional required adjustments as necessary.

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

	Balance as at September 30, 2023			Total credit risk
	Balance sheet credit risk	Off-balance sheet credit		
	Loans ⁽¹⁾	Unutilized credit facilities	Guarantees	
	NIS millions			
Corporate Banking Division				
Construction for commerce and services	2,594	590	308	3,492
Construction for industry	143	19	44	206
Housing construction	32,109	18,689	⁽¹⁾ 19,139	69,937
Yield-generating properties	29,636	6,747	906	37,289
Other	10,420	7,973	4,828	23,221
Corporate Banking Division total	74,902	34,018	25,225	134,145
Retail Banking Division	8,230	1,702	713	10,645
Total activity in Israel	83,132	35,720	25,938	144,790
<hr/>				
	Balance as at December 31, 2022			Total credit risk
	Balance sheet credit risk	Off-balance sheet credit		
	Loans ⁽¹⁾	Unutilized credit facilities	Guarantees	
	NIS millions			
Corporate Banking Division				
Construction for commerce and services	2,734	793	499	4,026
Construction for industry	361	86	45	492
Housing construction	30,677	17,591	⁽¹⁾ 21,537	69,805
Yield-generating properties	26,365	4,607	796	31,768
Other	9,156	7,278	4,877	21,311
Corporate Banking Division total	69,293	30,355	27,754	127,402
Retail Banking Division	8,836	1,852	737	11,425
Total activity in Israel	78,129	32,207	28,491	138,827

(1) Includes balance sheet and off-balance sheet credit risk in respect of which insurance was acquired, mainly from foreign insurance companies, for the portfolio of credit for land. For further details, see [the Report on Risks as at September 30, 2023](#).

Overall credit risk in the construction and real-estate sectors in Israel totaled approximately NIS 145 billion as at September 30, 2023. The total balance of risk of credit to the public in the construction and real-estate sectors in Israel increased by approximately 4.3% in the first nine months of 2023. Most of the exposure is at the Corporate Banking Division (mid-sized and large customers), at approximately 93% of total credit risk in the construction and real-estate sectors in Israel.

Exposure to companies operating primarily in the residential construction industry at the Corporate Banking Division constitutes approximately 52% of the exposure of the division to the construction and real-estate sector. Most financing for companies in this industry consists of financing of land for housing and financing of residential construction projects nationwide. Exposure to companies operating in the industries of construction of buildings for commerce and services, construction for industry, and yield-generating properties for rent at the Corporate Banking Division constitutes approximately 31% of the exposure of the division to the construction and real-estate sector.

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

	Balance as at		Change
	September 30, 2023	December 31, 2022	
NIS millions			
Credit risk at credit execution rating			
Non-problematic credit risk	141,214	135,815	4.0%
Credit risk not at credit execution rating			
Problematic accruing	1,292	434	197.7%
Non-accruing	1,001	682	46.8%
Problematic credit risk not at execution rating	2,293	1,116	105.5%
Non-problematic credit risk not at execution rating	1,283	1,896	(32.3%)
Total credit risk not at credit execution rating	3,576	3,012	18.7%
Total	144,790	138,827	4.3%

Total credit risk not at credit execution rating increased by 18.7% in the first nine months of 2023. Total credit risk not at credit execution rating as a percentage of total credit risk increased from 2.17% at the end of 2022 to 2.47% as at September 30, 2023; problematic debt as a percentage of total credit risk increased from 0.80% at the end of 2022 to 1.58% as at September 30, 2023; and non-accruing debt as a percentage of total credit risk increased from 0.49% at the end of 2022 to 0.69% as at September 30, 2023.

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

Table D-8: Risk of credit in the real-estate sector at the Corporate Banking Division in Israel, by financing rate (LTV) and absorption capacity⁽¹⁾

	Balance as at September 30, 2023				
	Land	Real estate in construction processes ⁽²⁾	Completed properties	Other	Total
NIS millions					
Financing rate⁽³⁾					
Up to 45%	2,628	-	6,333	-	8,961
Over 45% up to 65%	6,676	-	8,847	-	15,523
Over 65% up to 80%	15,580	-	6,465	-	22,045
Over 80%	2,839	-	783	-	3,622
Absorption capacity⁽⁴⁾					
Up to 25%	-	294	-	-	294
Over 25% up to 50%	-	16,713	-	-	16,713
Over 50% up to 75%	-	8,865	-	-	8,865
Over 75%	-	22,340	-	-	22,340
Projects not yet started	-	8,631	-	-	8,631
Other⁽⁵⁾					
	-	-	-	27,151	27,151
Total Corporate Banking Division credit risk	27,723	56,843	22,428	27,151	134,145

- (1) Segmentation was performed according to an analysis of the source of repayment of each credit, as presented and approved during the underwriting process.
- (2) "Real estate in construction processes" includes all projects under construction in the various segments (residential, offices, commerce, etc.), including construction of properties designated for rental. This segment includes purchasing groups; projects for which a financing agreement has been signed, but financing has not commenced due to non-attainment of preliminary conditions; land where development has started; and balances of Sale Law guarantees in the process of cancellation in respect of completed projects.
- (3) The financing rate is the ratio of the monetary credit at the report date to the present value of the existing collateral at the report date, before the effect of haircuts. Financing rates do not weigh in risk hedging of credit balances backed by insurance acquired from reinsurers.
- (4) The absorption capacity of the projects is the maximum possible rate of decline in the value of the asset as completed without the Bank incurring losses from the projects. The absorption capacity is based on the last known report at the report date, and does not weigh in risk hedging of balances secured by insurance acquired from reinsurers.
- (5) "Other credit" is any credit that does not meet the definitions of one of the segments listed above. This item includes, for example, financing of infrastructure projects (PPP); financing against collateral other than real estate (such as deposits, shares, floating liens, third-party guarantees, and more); current credit against financial robustness; and more.

Table D-8: Risk of credit in the real-estate sector at the Corporate Banking Division in Israel, by financing rate (LTV) and absorption capacity⁽¹⁾ (continued)

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

* Reclassified.

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

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

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

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

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

Credit at financing rates greater than 80% constitutes approximately 7.2% of the total balance of completed properties and land at the Corporate Banking Division as at September 30, 2023, compared with 9.7% as at December 31, 2022. Credit with absorption capacity of up to 25% for real estate in construction processes constitutes approximately 0.6% of the total balance of real estate in construction processes at the Corporate Banking Division (excluding projects not yet started) as at September 30, 2023, compared with 2.0% as at December 31, 2022.

The main change in the composition of financing rates and absorption capacity in the first nine months of the year is an increase in the amount of NIS 8,638 million in projects with absorption capacity of 25% to 50%. This change mainly resulted from the commencement of financing of new projects. In addition, a decrease in the amount of NIS 4,897 million occurred in projects with absorption capacity over 75%, mainly as a result of the completion of construction of projects.

Note that on May 22, 2022, the Banking Supervision Department issued an update of Directive 203 pursuant to which loans designated for the acquisition of land for the purpose of development or construction at a rate exceeding 80% of the value of the acquired asset (LTV) would be added to the list of debts risk weighted at 150%, excluding loans for the acquisition of agricultural land with no planning horizon or intention to apply for a change in designation, and excluding loans for the acquisition of land for the borrower's own use where the borrower is not categorized as being in the economic sector of construction and real estate, according to the sector classifications in Directive 831 concerning reporting on economic sectors. A questions and answers document was released on January 26, 2023, containing clarifications regarding the implementation of the circular. For additional information, see [Note 9K to the Condensed Financial Statements](#).

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

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

The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Division, in addition to the regulatory limit established by the Bank of Israel. On January 7, 2021, the Bank of Israel issued additional adjustments of Proper Conduct of Banking Business Directive 250 (Temporary Order on Coping with the Coronavirus Crisis), which also addresses Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit." The update stated that the limit on credit for the construction and real-estate sector, excluding indebtedness for national infrastructures, would rise from 20% to 22% of total indebtedness of the public, and the limit on credit for the construction and real-estate sector would rise from 24% to 26% of total indebtedness of the public. The period of the relief was extended to 24 months from December 31, 2025, provided that the rate does not exceed the rate on December 31, 2025, or the rate of the industry limit as established in Proper Conduct of Banking Business Directive 315, whichever is higher. As part of its management of exposure to this sector and compliance with the limit in this sector, the Bank uses tools such as syndication and the acquisition of insurance from rated foreign insurance companies recognized for the reduction of indebtedness pursuant to Proper Conduct of Banking Business Directive 313. Beginning in the second half of 2021, the Bank expanded its use of insurance policies. In the first quarter of 2023, the Bank continued to expand the land insurance policies that protect the Bank against credit losses in respect of the portfolio of loans granted to customers of the Corporate Banking Division of the Bank that are secured by a lien on land. In addition, the Bank uses insurance policies for Sale Law guarantees that protect the Bank against losses in respect of Sale Law guarantees issued in real-estate projects of customers of the Corporate Banking Division financed by the Bank. These insurance policies allow the Bank to reduce its exposure to the construction and real-estate sector (for further details, see [Note 10A\(4\) to the Condensed Financial Statements](#)). The Bank may take additional measures in the future to continue to manage this limit and the exposure to this sector

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

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

The allowance for credit losses in respect of the construction and real-estate sectors in Israel totaled approximately NIS 1,995 million as at September 30, 2023, compared with a total of approximately NIS 1,469 million as at December 31, 2022. The total allowance for credit losses as a percentage of credit to the public in the construction and real-estate sector in Israel as at September 30, 2023, is 2.41%, compared with 1.88% as at December 31, 2022.

D.3.b. Credit risk in respect of exposures to borrowers and to groups of borrowers

Table D-9: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

	September 30, 2023			Total
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	
NIS millions				
Economic sector of the borrower				
Electricity supply	1	1,758	1,350	3,108
Construction and real estate – construction	9	8,235	6,488	14,723
Construction and real estate – civil engineering	3	1,777	3,499	5,276
Hotels, hospitality, and food services	1	1,270	158	1,428
Information and communications	1	1,190	67	1,257
Financial services	14	14,478	15,826	30,304
Industry	3	1,783	4,225	6,008
Motor-vehicle trading	1	1,023	315	1,338
Total	33	31,514	31,928	63,442

Table D-9: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy (continued)

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

Credit risk in respect of exposure to borrower groups

As at September 30, 2023, there is no group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: "Directive 313"), exceeds 15% of the capital of the banking corporation (as defined in Directive 313).

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

In November 2022, the Bank of Israel issued a draft update of Proper Conduct of Banking Business Directive 313, "Supervisory Framework for the Measurement and Control of Large Exposures," the essence of which is a change in the manner of calculation of indebtedness in respect of large exposures. The Bank is examining the implications of the implementation of the directive.

D.3.c. Risks in the housing loan portfolio

Table D-10: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank

	Unlinked segment				CPI-linked segment				Foreign-currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate		Recorded debt balance in NIS millions	Rate of change during the period
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %		
Sep. 30, 2023	34,151	26.1%	51,091	39.0%	14,754	11.3%	30,852	23.6%	106	0.1%	130,954	2.2%
Dec. 31, 2022	32,815	25.6%	50,886	39.7%	13,951	10.9%	30,398	23.7%	127	0.1%	128,177	11.3%
Dec. 31, 2021	27,672	24.0%	45,600	39.6%	13,610	11.8%	28,137	24.4%	147	0.1%	115,166	15.8%

Risk quantification and measurement – housing credit portfolio

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

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

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

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

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

In general, the level of credit risk in the housing credit portfolio is low, as reflected in the indicators noted above. Note that the trend of rising interest rates, and to a lesser extent the increase in the consumer price index, have caused monthly payments to grow for many borrowers. This increase has not yet been reflected in portfolio quality indicators.

Table D-11: Details of characteristics of housing credit granted by the Bank – percentage of total new loans executed

	For the three months ended				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Characteristics					
Financing rate over 60%	42.3%	42.1%	41.3%	42.6%	42.0%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	0.9%	1.0%	1.1%	0.2%	0.3%
Percentage with floating rates	54.8%	55.7%	56.2%	57.5%	60.3%
Percentage of all-purpose loans	7.0%	6.6%	5.7%	4.5%	3.0%
Loans for investment purposes as a percentage of total purchases of homes	8.6%	8.3%	9.9%	10.6%	9.8%
Principal planned for repayment after age 67 (excluding investments)	11.1%	11.3%	10.5%	9.4%	9.7%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	26.4	26.6	26.3	25.9	25.4

The balance of housing loans grew by 0.8% in the third quarter of 2023, slightly higher than in the second quarter, and similar to the first quarter of 2023, but lower than the growth in 2022. The more moderate growth rate in balances in 2023 was influenced by the increases in the interest rate, the increase in inflation, and the expectations of a decrease in prices, which led to a significant decrease in the quantity of transactions. Quality indicators of new loans showed an increase in the third quarter of 2023 in financing rates higher than 60%, the percentage of all-purpose loans, and loans for investment purposes as a percentage of total purchases of homes.

Decreases were recorded in the third quarter of 2023 in payment to income ratios greater than 40%, the percentage of execution of floating-rate loans, loans with principal scheduled for repayment after the age of 67, and the average term to maturity of loans for purchases of homes.

According to the estimates of the Bank, the changes are immaterial and do not indicate a significant change in risk.

Further to the Bank's initiatives during the year to help customers cope with the increase in the interest rate, several additional initiatives were introduced in view of the Swords of Iron war, to help population groups cope with payments during this period; these include a full exemption from mortgage payments for three months, for Otef Aza customers (in the range of up to 7 km from the border). This benefit is in addition to the option for other directly affected customers to freeze mortgage payments for three months at no cost, according to the outline announced by the Bank of Israel. For additional reliefs in the area of consumer credit, see [the section "Credit to private individuals,"](#) below.

The weighted average financing rate (LTV) in the housing-loan portfolio of the Bank as at September 30, 2023, is approximately 46%, similar to the financing rate as at December 31, 2022 (based on the financing rate when the loan was granted). The effective rate is even lower, due to regular repayments since the credit was granted and an increase in the value of the pledged assets. It is noted that the increase in the risk level that began in the second half of 2022 followed a period in which the risk decreased, and the overall risk level in the portfolio is low.

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

D.3.d. Credit to private individuals (excluding housing)

Table D-12: Balance of credit to private individuals in Israel

	Balance as at		Change	
	September 30, 2023	December 31, 2022		
	NIS millions			
Balance sheet				
Negative balance in current accounts	2,617	2,666	(49)	(1.8%)
Loans ⁽¹⁾	24,626	24,256	370	1.5%
Of which: bullet and balloon loans	57	48	9	18.8%
Credit for purchases of motor vehicles ⁽²⁾	2,823	3,359	(536)	(16.0%)
Debtors in respect of credit-card activity	5,155	4,849	306	6.3%
Total balance sheet credit risk	35,221	35,130	91	0.3%
Off-balance sheet				
Off-balance sheet credit risk	21,198	17,980	3,218	17.9%
Total credit risk	56,419	53,110	3,309	6.2%

(1) Excluding loans for purchases of motor vehicles.

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

The balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, decreased by approximately 0.6% in the first nine months of 2023 in comparison to December 31, 2022. Total balance sheet credit risk increased by approximately 0.3% in this period, and total off-balance sheet credit risk increased by approximately 17.9%, mainly influenced by an increase in credit facilities in credit cards.

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

Further to the reliefs granted during the year due to the increase in the interest rate, and beyond the measures taken in the area of housing loans, as described above, due to the Swords of Iron War, the Bank adopted the outline of the Bank of Israel in this area and expanded the scope of the deferral of payments. In addition, several initiatives were introduced beyond the Bank of Israel's outline, including loans at preferred interest rates for all customers, interest-free loans for specific population groups, and deferral or rescheduling of credit-card charges. These reliefs apply to households and small-business customers. For further information regarding initiatives of the Bank for its customers, see [the section "Private customers" in the Corporate Governance Report](#).

For details regarding problematic debts in respect of private individuals in Israel, see [Note 13 to the Condensed Financial Statements](#).

For additional information regarding the risk of credit to private individuals, see [the section "Review of risks" in the Report of the Board of Directors and Board of Management](#).

D.3.e. Leveraged financing

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

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

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

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

Table D-13: Exposures of the Bank to leveraged financing, by economic sector of the borrower*

	September 30, 2023			Total
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	
	NIS millions			
Economic sector of the borrower				
Construction and real estate – real-estate activities	3	1,724	173	1,897
Mining and quarrying	2	304	-	304
Financial services and insurance services	1	651	-	651
Water supply and sewage services	1	267	-	267
Total	7	2,946	173	3,119

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

Table D-13: Exposures of the Bank to leveraged financing, by economic sector of the borrower* (continued)

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

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

D.4. Credit risk mitigation: standardized approach disclosures

The Bank applies the comprehensive standardized approach in order to determine risk weightings to apply to the counterparty. The standardized approach requires the use of independent ratings prepared by international rating agencies.

Pursuant to the Basel 3 directives, under certain conditions, certain collateral, such as guarantees, credit derivatives, and financial assets held as collateral, can be deducted from risk components for the purpose of calculating the capital-adequacy ratio.

The deduction of collateral for the calculation of the capital ratio is performed after using safety margins established in the directive. These margins take into account factors including the term to maturity of the collateral, any lack of congruity between the linkage terms of the collateral and of the credit that it secures, and volatility in the value of the collateral.

The qualifying financial collateral used by the Bank to calculate capital adequacy and risk mitigation includes deposits that constitute collateral by way of liens, bonds of banking corporations and governments under permanent liens, and shares under lien traded on the primary index. In addition, the Bank uses guarantees of banking corporations, which transfer the exposure from the segment of the guaranteed party to exposure to banking corporations.

Table D-14: Credit risk mitigation

		September 30, 2023									
		Unsecured		Secured							
		Total balance sheet balance	Total balance sheet balance	Of which: amount secured	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives		
					Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	
		NIS millions									
1	Debts, excluding bonds	354,619	68,343	45,236	36,226	29,100	32,117	16,136	-	-	
2	Bonds	132,583	-	-	-	-	-	-	-	-	
3	Total	487,202	68,343	45,236	36,226	29,100	32,117	16,136	-	-	
4	Of which: non-accruing or past due by 90 days or more	8,145	149	12	149	12	-	-	-	-	
		September 30, 2022									
		Unsecured		Secured							
		Total balance sheet balance	Total balance sheet balance	Of which: amount secured	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives		
					Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	
		NIS millions									
1	Debts, excluding bonds	342,608	54,896	32,672	27,538	19,314	27,358	13,358	-	-	
2	Bonds	86,073	-	-	-	-	-	-	-	-	
3	Total	428,681	54,896	32,672	27,538	19,314	27,358	13,358	-	-	
4	Of which: non-accruing or past due by 90 days or more	3,655	113	3	113	3	-	-	-	-	
		December 31, 2022									
		Unsecured		Secured							
		Total balance sheet balance	Total balance sheet balance	Of which: amount secured	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives		
					Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	
		NIS millions									
1	Debts, excluding bonds	345,472	62,496	39,701	32,887	23,831	29,609	15,870	-	-	
2	Bonds	103,352	-	-	-	-	-	-	-	-	
3	Total	448,824	62,496	39,701	32,887	23,831	29,609	15,870	-	-	
4	Of which: non-accruing or past due by 90 days or more	7,769	153	4	153	4	-	-	-	-	

Table D-15: Standardized approach – exposures by asset type and risk weight⁽¹⁾⁽²⁾

		September 30, 2023									Total amount of credit exposures (after CCF and after CRM)
		0%	20%	35%	50%	60%	75%	100%	150%	Other ⁽³⁾	
		NIS millions									
1	Sovereigns, central banks thereof, and national monetary authority	180,497	675	-	29	-	-	63	24	-	181,288
2	Public-sector entities (PSE) other than the central government	1,981	5,779	-	2	-	-	-	-	-	7,762
3	Banks (including multilateral development banks (MDB))	2,554	17,655	-	30	-	-	32	-	-	20,271
4	Securities companies	-	2,901	-	-	-	-	-	-	-	2,901
5	Corporations	-	14,049	-	10,220	-	-	138,574	152	-	162,995
6	Retail exposures to individuals	-	-	-	-	-	51,264	1	-	-	51,265
7	Loans to small businesses	-	-	-	-	-	9,217	24	-	-	9,241
8	Secured by a residential property	-	-	35,177	37,541	36,559	13,822	3,782	-	-	126,881
9	Secured by commercial real estate	-	-	-	-	-	-	91,876	4,715	-	96,591
10	Past-due loans	-	-	-	-	-	-	1,599	1,556	-	3,155
11	Other assets*	3,476	423	-	-	-	-	9,906	1,899	-	15,704
11A	* Of which: in respect of shares	-	-	-	-	-	-	2,888	1,339	-	4,227
12	Total	188,508	41,482	35,177	47,822	36,559	74,303	245,857	8,346	-	678,054

(1) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding amounts of deferred taxes and investments in financial corporations below deduction thresholds (which are subject to a risk weight of 250%), exposures in respect of counterparty credit risk, and securitization exposures.

(2) The balances reflect the supervisory exposure amounts net of allowances and charge-offs, after credit conversion factors and after credit risk mitigation methods.

(3) In accordance with the letter of the Banking Supervision Department, the risk-adjusted assets of the subsidiary of the Bank in Turkey are weighted at a rate of 300%. The balance reflects the addition in respect of the calculation of risk-adjusted assets in accordance with this letter, relative to the calculation of risk-adjusted assets pursuant to Proper Conduct of Banking Business Directive 203.

Table D-15: Standardized approach – exposures by asset type and risk weight⁽¹⁾⁽²⁾ (continued)

		September 30, 2022									Total amount of credit exposures (after CCF and after CRM)
		0%	20%	35%	50%	60%	75%	100%	150%	Other ⁽³⁾	
		NIS millions									
1	Sovereigns, central banks thereof, and national monetary authority	206,939	367	-	9	-	-	158	80	-	207,553
2	Public-sector entities (PSE) other than the central government	1,725	4,490	-	-	-	-	-	-	-	6,215
3	Banks (including multilateral development banks (MDB))	-	15,845	-	40	-	-	51	-	-	15,936
4	Securities companies	-	3,566	-	-	-	-	-	-	-	3,566
5	Corporations	-	13,596	-	11,089	-	-	131,908	123	-	156,716
6	Retail exposures to individuals	-	-	-	-	-	51,926	24	-	-	51,950
7	Loans to small businesses	-	-	-	-	-	9,522	-	-	-	9,522
8	Secured by a residential property	-	-	34,375	37,775	33,442	15,734	3,325	-	-	124,651
9	Secured by commercial real estate	-	-	-	-	-	-	84,257	742	-	84,999
10	Past-due loans	-	-	-	-	-	-	1,482	962	-	2,444
11	Other assets*	3,822	-	-	-	-	-	10,241	1,169	343	15,575
11A	* Of which: in respect of shares	-	-	-	-	-	-	3,301	704	-	4,005
12	Total	212,486	37,864	34,375	48,913	33,442	77,182	231,446	3,076	343	679,127

(1) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding amounts of deferred taxes and investments in financial corporations below deduction thresholds (which are subject to a risk weight of 250%), exposures in respect of counterparty credit risk, and securitization exposures.

(2) The balances reflect the supervisory exposure amounts net of allowances and charge-offs, after credit conversion factors and after credit risk mitigation methods.

(3) In accordance with the letter of the Banking Supervision Department, the risk-adjusted assets of the subsidiary of the Bank in Turkey are weighted at a rate of 300%. The balance reflects the addition in respect of the calculation of risk-adjusted assets in accordance with this letter, relative to the calculation of risk-adjusted assets pursuant to Proper Conduct of Banking Business Directive 203.

Table D-15: Standardized approach – exposures by asset type and risk weight⁽¹⁾⁽²⁾ (continued)

		December 31, 2022									Total amount of credit exposures (after CCF and after CRM)
		0%	20%	35%	50%	60%	75%	100%	150%	Other ⁽³⁾	
		NIS millions									
1	Sovereigns, central banks thereof, and national monetary authority	208,084	531	-	9	-	-	119	17	-	208,760
2	Public-sector entities (PSE) other than the central government	1,947	4,901	-	-	-	-	-	-	-	6,848
3	Banks (including multilateral development banks (MDB))	1,376	16,946	-	332	-	-	31	-	-	18,685
4	Securities companies	-	2,383	-	-	-	-	-	-	-	2,383
5	Corporations	-	15,003	-	10,697	-	-	133,068	124	-	158,892
6	Retail exposures to individuals	-	-	-	-	-	52,091	16	-	-	52,107
7	Loans to small businesses	-	-	-	-	-	9,661	-	-	-	9,661
8	Secured by a residential property	-	-	34,675	37,375	34,287	14,567	3,216	-	-	124,120
9	Secured by commercial real estate	-	-	-	-	-	-	85,581	4,962	-	90,543
10	Past-due loans	-	-	-	-	-	-	1,443	1,006	-	2,449
11	Other assets*	3,961	-	-	-	-	-	10,441	1,120	342	15,864
11A	* Of which: in respect of shares	-	-	-	-	-	-	3,333	715	-	4,048
12	Total	215,368	39,764	34,675	48,413	34,287	76,319	233,915	7,229	342	690,312

(1) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding amounts of deferred taxes and investments in financial corporations below deduction thresholds (which are subject to a risk weight of 250%), exposures in respect of counterparty credit risk, and securitization exposures.

(2) The balances reflect the supervisory exposure amounts net of allowances and charge-offs, after credit conversion factors and after credit risk mitigation methods.

(3) In accordance with the letter of the Banking Supervision Department, the risk-adjusted assets of the subsidiary of the Bank in Turkey are weighted at a rate of 300%. The balance reflects the addition in respect of the calculation of risk-adjusted assets in accordance with this letter, relative to the calculation of risk-adjusted assets pursuant to Proper Conduct of Banking Business Directive 203.

E. Counterparty credit risks

Counterparty risk is defined at the Bank, according to the definition in Proper Conduct of Banking Business Directive 203A, as the credit risk arising from transactions in derivative financial instruments. The risk is that the counterparty to the transaction will default before the final settlement of cash flows in the transaction. The market value of the transaction may be positive or negative for any of the parties to the transaction; the market value is not certain, and may change over time and according to movements in the underlying market-risk factors.

As of July 1, 2022, data referring to counterparty credit risk are calculated according to the SA-CCR approach. For further details, see [“Directives pertaining to capital allocation in respect of derivative financial instruments” in the section, “Capital and leverage.”](#)

The Swords of Iron War, which occurred after the balance-sheet date, and the subsequent market volatility led to an increase in the collateral required of some customers, with no significant deviations. The market fluctuations and the increase in credit spreads led to an increase in accounting CVA.

Table E-1: Analysis of exposure to counterparty credit risk based on the supervisory approach

		September 30, 2023					September 30, 2022				
		Replacement cost	Potential future exposure	Alpha used to calculate regulatory EAD	EAD after CRM	RWA	Replacement cost	Potential future exposure	Alpha used to calculate regulatory EAD	EAD after CRM	RWA
		NIS millions									
1	SA-CCR approach	3,036	15,266	1.4	25,622	8,980	4,284	12,302	1.4	23,220	7,345
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	-	-	-	1,675	335	-	-	-	*1,664	*333
6	Total	3,036	15,266	1.4	27,297	9,315	4,284	12,302	1.4	24,884	7,678

* Restated.

		December 31, 2022				
		Replacement cost	Potential future exposure	Alpha used to calculate regulatory EAD	EAD after CRM	RWA
		NIS millions				
1	SA-CCR approach	2,847	12,226	1.4	21,102	6,819
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	-	-	-	1,885	377
6	Total	2,847	12,226	1.4	22,987	7,196

Table E-2: Capital allocation in respect of credit value adjustment

	September 30, 2023		September 30, 2022		December 31, 2022	
	EAD after CRM	RWA	EAD after CRM	RWA	EAD after CRM	RWA
	NIS millions					
3 Total portfolios in respect of which CVA is calculated according to the standardized approach	25,607	4,821	23,220	4,269	21,051	3,786

Table E-3: Standardized approach – exposures to counterparty credit risk based on the supervisory portfolio and risk weights

	September 30, 2023				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	60	-	-	-	60
Public-sector entities (PSEs) other than the central government	-	527	-	-	527
Banks (including multilateral development banks (MDB))	-	7,266	21	-	7,287
Securities companies	-	14,578	-	-	14,578
Corporations	-	-	27	4,061	4,088
Supervisory retail portfolios	-	-	-	36	36
Loans to small businesses	-	-	-	47	47
Secured by commercial real estate	-	-	-	674	674
Other assets	-	-	-	-	-
Total	60	22,371	48	4,818	27,297

	September 30, 2022				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	36	-	-	-	36
Public-sector entities (PSEs) other than the central government	-	608	-	-	608
Banks (including multilateral development banks (MDB))	-	5,968	19	-	5,987
Securities companies	-	14,870	-	-	14,870
Corporations	-	-	6	2,990	2,996
Supervisory retail portfolios	-	-	-	36	36
Loans to small businesses	-	-	-	53	53
Secured by commercial real estate	-	-	-	298	298
Other assets	-	-	-	-	-
Total	36	21,446	25	3,377	24,884

Table E-3: Standardized approach – exposures to counterparty credit risk based on the supervisory portfolio and risk weights (continued)

	December 31, 2022				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	53	-	-	-	53
Public-sector entities (PSEs) other than the central government	-	582	-	-	582
Banks (including multilateral development banks (MDB))	-	6,280	17	-	6,297
Securities companies	-	12,800	-	-	12,800
Corporations	-	-	-	2,814	2,814
Supervisory retail portfolios	-	-	-	31	31
Loans to small businesses	-	-	-	47	47
Secured by commercial real estate	-	-	-	363	363
Other assets	-	-	-	-	-
Total	53	19,662	17	3,255	22,987

Table E-4: Composition of collateral in respect of exposure to counterparty credit risk

	September 30, 2023					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
	NIS millions					
Cash – local currency	-	2,174	-	1,403	-	-
Cash – other currencies	-	8,130	-	3,667	16,430	326
Local sovereign debt	-	558	245	-	-	9,490
Other sovereign debt	-	2,500	274	-	-	7,505
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	983	3,606	-	-	784
Shares	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	14,345	4,125	5,070	16,430	18,105

Table E-4: Composition of collateral in respect of exposure to counterparty credit risk (continued)

	September 30, 2022					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
	NIS millions					
Cash – local currency	-	26	-	820	-	-
Cash – other currencies	-	6,709	-	2,907	8,712	579
Local sovereign debt	-	851	793	-	-	6,666
Other sovereign debt	-	1,208	226	-	-	245
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	294	1,714	-	-	2,886
Shares	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	9,088	2,733	3,727	8,712	10,376

	December 31, 2022					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
	NIS millions					
Cash – local currency	-	1,123	-	1,762	-	-
Cash – other currencies	-	5,769	-	1,805	13,296	870
Local sovereign debt	-	6	19	-	-	10,917
Other sovereign debt	-	1,605	25	-	567	3,236
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	403	2,435	-	-	725
Shares	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	8,906	2,479	3,567	13,863	15,748

With regard to allocated capital in connection with SA-CCR, which is replacing the existing approaches to Proper Conduct of Banking Business Directive 203, see [the section “Directives pertaining to capital allocation in respect of derivative financial instruments” in the section “Capital and leverage,”](#) above.

For additional information regarding counterparty risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022.](#)

F. Market risk

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

This includes:

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

The main market risk factors to which the Bank is exposed are interest rates of the NIS (in the linked and unlinked segments) and the USD, inflation, the NIS/USD exchange rate, and spreads between different interest-rate curves.

With regard to the discontinuation of publication of the LIBOR interest rate, see [the section “Discontinuation of the publication of the LIBOR interest rate” in the Report on Risks of June 30, 2023, and Note 1C to the Condensed Financial Statements.](#)

For more extensive information regarding market, interest-rate, and investment risks and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022.](#)

F.1. Market risk in the trading book

Market risks in the trading book arise from the Bank’s activity as a market maker, trader, and manager of positions on its own behalf. The Bank’s risk level is measured and controlled according to procedures that include, among other things, limits on the risk estimate in terms of VaR and on the sensitivity of economic value to changes in the primary risk factors. A risk estimate using the VaR (value at risk) method estimates the maximum potential loss to the corporation resulting from the materialization of market risks within a given period of time and at a level of statistical significance predefined by the Bank and approved by the Board of Directors.

Table F-1: Risk estimates of trading activity (VaR)

	September 30, 2023	Average in 2023 up to September 30, 2023	December 31, 2022	Average in 2022
	NIS millions			
Total trading in dealing rooms	27	44	27	41

Table F-2: Sensitivity of the Bank to changes in the exchange rates of foreign currencies with a significant volume of activity and to changes in the consumer price index

	September 30, 2023		December 31, 2022	
	NIS millions			
	10% increase	10% decrease	10% increase	10% decrease
USD	(81)	142	(82)	171
EUR	(31)	31	(31)	43
	3% increase	3% decrease	3% increase	3% decrease
CPI	768	(803)	555	(591)

The table above presents an analysis of the sensitivity of the economic value of the Bank to changes in exchange rates, based on revaluation of all balance sheet and off-balance sheet instruments in the risk-management system, using prevalent models for revaluation of each instrument and using representative rates as the baseline exchange rate. For the purposes of the calculation, the portfolio is revalued at an exchange rate reflecting an increase/decrease at the presented rate, with no additional assumptions. Sensitivity to the consumer price index is calculated according to the exposure of the Bank to the index, as detailed in Note 14 to the Condensed Financial Statements, plus the effect of the CPI floor on the expected accounting profit.

The Swords of Iron War has increased uncertainty in the economy and in the markets. Due to intervention by the Bank of Israel in the foreign-currency market, the exchange rate showed moderate depreciation, which later receded. Near the date of publication of the financial statements, the Bank has no significant exposure to changes in exchange rates with respect to its results of operations. Changes in exchange rates have some effect on total risk-adjusted assets, and correspondingly on capital ratios. At the beginning of the war, volatility of the shekel interest-rate curves increased, leading to an increase in the VaR risk estimate of the dealing room and volatility in the results of trading activity, with no deviation from limits.

Table F-3: Market risk based on the standardized approach

The Bank is required to allocate capital in respect of market risk assets, on the basis of a standardized model defined by the Bank of Israel. Regulatory capital adequacy is calculated for interest-rate and share risks, as defined above, in the trading book only, and for currency risks in the banking book and in the trading book.

	September 30, 2023	September 30, 2022	December 31, 2022
	Risk-adjusted assets in NIS millions		
Direct products			
1	4,162	3,363	3,537
2	-	-	-
3	238	1,375	163
4	-	-	-
Options			
5	-	-	-
6	349	920	307
7	-	-	-
8	-	-	-
9	4,749	5,658	4,007

F.2. Interest-rate risk in the banking book

Interest-rate risk in the banking book refers to the potential effect of changes in the various interest-rate curves on the economic value of the Bank (i.e. change in the present value of assets and liabilities) and/or on interest income (accounting income sensitivity). This risk emerges during routine and proactive banking activity, as a result of the provision of routine services to the general public and to the business and financial sectors, and from other banking activities, including interest-rate exposure arising from the management of the Bank's investment portfolio. The risk arises from differences in the structure of assets and liabilities – durations, interest-rate bases, interest-rate reset dates, and more. Limits apply at the Bank both to the sensitivity of economic value and to the sensitivity of income and capital to scenarios of change in the shekel and CPI-linked yield curves and in yield curves in other currencies (including financial subsidiaries under the Bank's management and subsidiaries with exposure significant for the Group, if any).

The economic value sensitivity table presents an analysis of the sensitivity of the Bank's economic value to changes in interest-rate curves, based, among other factors, on the discounting of expected cash flows by interest-rate curves that do not take into account the credit risk spread of the counterparty, with the use of internal models for some products. This differs from the calculation in fair-value tables, where the expected cash flows are discounted by a discount rate that also reflects the risk level of the counterparty to the financial instrument. Pursuant to the Public Reporting Directives of the Bank of Israel, the Bank applies hypothetical shock and stress scenarios of changes in interest rates to the adjusted fair value of the financial instruments used by the Bank. The shock and stress scenarios are calculated according to rules established in the reporting requirements. The required scenarios are parallel scenarios in interest-rate curves, steepening (a decrease in the short-term interest rate and an increase in the long-term interest rate), and flattening (an increase in the short-term interest rate and a decrease in the long-term interest rate), as well as scenarios of an increase in the short-term interest rate and a decrease in the short-term interest rate. The scenarios were applied uniformly to all of the currencies included in the report to the public.

Table F-4: Adjusted* net fair value of the financial instruments of the Bank and its consolidated companies

	September 30, 2023					December 31, 2022 ⁽¹⁾				
	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total
	NIS millions									
Financial assets**	449,314	59,377	94,367	16,141	619,199	458,609	57,106	84,786	14,297	614,798
Other amounts receivable in respect of derivative, hybrid, and off-balance sheet financial instruments	603,039	18,244	752,444	177,207	1,550,934	556,296	21,078	517,498	60,888	1,155,760
Financial liabilities**	391,378	25,699	149,445	16,257	582,779	402,250	30,630	136,096	15,041	584,017
Other amounts payable in respect of derivative, hybrid, and off-balance sheet financial instruments	649,966	21,726	698,563	177,403	1,547,658	599,672	25,298	466,949	60,959	1,152,878
Net fair value of financial instruments	11,009	30,196	(1,197)	(312)	39,696	12,983	22,256	(761)	(815)	33,663
Effect of employee benefit liabilities	-	(3,895)	-	-	(3,895)	-	(4,149)	-	-	(4,149)
Effect of spreading over periods of on-demand deposits	13,772	-	3,582	829	18,183	14,990	-	3,029	725	18,744
Adjusted net fair value*	24,781	26,301	2,385	517	53,984	27,973	18,107	2,268	(90)	48,258
Of which: banking book	26,836	25,844	2,629	512	55,821	27,953	18,598	2,224	(69)	48,706

* Net fair value of financial instruments, excluding non-monetary items, and after the effect of employee benefit liabilities and spreading over periods of on-demand deposits. For further details regarding the assumptions used to calculate the fair value of financial instruments, see [Note 15 to the Condensed Financial Statements](#).

** Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid financial instruments.

(1) Reclassified.

Table F-5: Effect of scenarios of changes in interest rates on the adjusted* net fair value of the Bank and its consolidated companies

	September 30, 2023					December 31, 2022				
	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total
NIS millions										
Parallel changes										
1% parallel increase	75	(1,008)	(221)	10	(1,144)	890	(655)	27	10	272
Of which:										
banking book	51	(1,010)	(211)	11	(1,159)	844	(659)	26	9	220
1% parallel decrease	(18)	1,088	226	(31)	1,265	(843)	696	(33)	(19)	(199)
Of which:										
banking book	1	1,086	216	(32)	1,271	(795)	700	(32)	(18)	(145)
Non-parallel changes										
Steepening ⁽¹⁾	(652)	(213)	(105)	27	(943)	(186)	(94)	64	30	(186)
Of which:										
banking book	(621)	(212)	(105)	27	(911)	(118)	(96)	56	30	(128)
Flattening ⁽²⁾	717	9	31	(37)	720	454	(32)	(36)	(34)	352
Of which:										
banking book	679	7	33	(36)	683	375	(31)	(28)	(34)	282
Increase in short-term interest rate	686	(423)	(84)	(25)	154	751	(308)	(7)	(23)	413
Of which:										
banking book	644	(425)	(78)	(23)	118	660	(308)	1	(22)	331
Decrease in short-term interest rate	(720)	424	79	12	(205)	(746)	305	57	18	(366)
Of which:										
banking book	(678)	426	73	10	(169)	(657)	305	49	17	(286)

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

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

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

Table F-6: Sensitivity of the economic value of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario)

	September 30, 2023			December 31, 2022		
	Unlinked NIS	CPI-linked NIS	Foreign currency	Unlinked NIS	CPI-linked NIS	Foreign currency
NIS millions						
Parallel changes						
1% parallel increase	(294)	(1,039)	(257)	111	(964)	(116)
1% parallel decrease	447	1,147	275	8	1,072	113

The difference between economic value sensitivity and fair value sensitivity as at September 30, 2023, mainly stems from the use of different discount curves, as described above, the effect of which is estimated at approximately NIS 0.2 billion in the unlinked segment and approximately NIS 0.1 billion in the CPI-linked segment. The continued increase in the interest rate and the level of the interest rate led to a change in depositors' behavior and a decrease in current-account balances; the current-account model was therefore updated in the first quarter of 2023. This update was the main cause of a change in sensitivity to the interest rate of the unlinked shekel, relative to the data for the end of the year.

Table F-7: Effect of scenarios of changes in interest rates on net interest income and on non-interest financing income

	September 30, 2023			December 31, 2022		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
1% parallel increase	294	65	359	681	(243)	438
Of which: banking book	294	51	345	681	(291)	390
1% parallel decrease	(1,094)	(68)	(1,162)	(1,773)	233	(1,540)
Of which: banking book	(1,094)	(59)	(1,153)	(1,773)	284	(1,489)

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

Increases in interest rates by central banks, in Israel and globally, were more moderate during the recent period. The increase in short-term interest rates, particularly the interest rates of the central banks, has a positive effect on the income of the Bank over time, as detailed in the income sensitivity table above; part of this effect is waning with the transition from current-account deposits to other products.

Volatility was observed in the shekel interest-rate curves when the Swords of Iron War broke out, but near the date of publication of the report there is no material change in the curves or in initial sensitivity estimates in comparison to the end of the quarter. The Bank is monitoring the developments in credit and deposits and the changes in sensitivities of value and income in the different scenarios.

F.3. Share and credit spread risk – investment risk

Investment risk is defined at the Bank as exposure to the stock market, to credit spreads, and to credit risk in the bond and stock markets in the banking book of the Group (as a result of holdings in these products, the Bank may also be exposed to interest-rate risks and/or currency risks and/or liquidity risks, which are managed separately). According to the definition at the Bank, Israeli government bonds in NIS and in foreign currency and government bonds of the country in which a branch/subsidiary operates, held by the branch/subsidiary, do not bear investment risk, and are therefore not included in the measurement of investment risk at the Bank.

For details regarding investments of the Bank, see [Note 5 to the Condensed Financial Statements](#).

G. Liquidity risk

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

Refinancing risk – The risk of inability to raise new resources to replace resources that have matured, or the risk that the reissue may be performed at durations and terms that significantly impair the Bank's net interest income. This risk is managed as part of liquidity risk. In light of the financing sources of the Bank, the Bank does not view this risk as a material risk in its own right. The Bank accords high importance to raising resources that are stable and highly diversified.

Table G-1: Liquidity coverage ratio (LCR) – limited banking corporation and consolidated subsidiaries

	For the quarter ended September 30, 2023	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		167,006
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	265,219	17,832
Stable deposits	73,178	3,659
Less stable deposits	102,556	11,488
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	89,485	2,685
Unsecured wholesale financing, of which:	161,085	107,379
Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,033	758
Non-operational deposits (all counterparties)	157,604	106,173
Unsecured debts	448	448
Secured wholesale financing	4,605	2,809
Additional liquidity requirements, of which:	133,222	22,544
Outflows related to derivative exposure and other collateral requirements	31,313	10,695
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	101,909	11,849
Other contractual funding obligations	14,279	14,279
Other contingent funding obligations	75,581	1,921
Total cash outflows	-	166,764
Cash inflows		
Secured lending (e.g. reverse repos)	976	-
Inflows from fully performing exposures	37,563	24,224
Other cash inflows	13,842	8,286
Total cash inflows	-	32,510
		Total adjusted value***
Total high-quality liquid assets (HQLA)		167,006
Total net cash outflows		134,254
Liquidity coverage ratio (%)		124%

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations in the quarter.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations. The number of observations used to calculate the averages in the reported quarter is 62.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

Table G-1: Liquidity coverage ratio (LCR) – limited banking corporation and consolidated subsidiaries (continued)

	For the quarter ended September 30, 2022	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		189,487
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	253,302	20,366
Stable deposits	81,798	4,090
Less stable deposits	133,922	15,149
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	37,582	1,127
Unsecured wholesale financing, of which:	195,269	128,999
Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,844	711
Non-operational deposits (all counterparties)	191,988	127,850
Unsecured debts	437	438
Secured wholesale financing	2,615	390
Additional liquidity requirements, of which:	113,877	18,378
Outflows related to derivative exposure and other collateral requirements	20,612	8,412
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	93,265	9,966
Other contractual funding obligations	9,237	9,237
Other contingent funding obligations	77,251	1,976
Total cash outflows	-	179,346
Cash inflows		
Secured lending (e.g. reverse repos)	1,246	852
Inflows from fully performing exposures	35,314	20,673
Other cash inflows	11,514	6,993
Total cash inflows	-	28,518
		Total adjusted value***
Total high-quality liquid assets (HQLA)		189,487
Total net cash outflows		150,828
Liquidity coverage ratio (%)		126%

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations in the quarter.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations. The number of observations used to calculate the averages in the reported quarter is 61.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

Table G-1: Liquidity coverage ratio (LCR) – limited banking corporation and consolidated subsidiaries (continued)

	For the quarter ended December 31, 2022	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		179,514
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	253,557	19,186
Stable deposits	79,553	3,978
Less stable deposits	122,120	13,652
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	51,884	1,556
Unsecured wholesale financing, of which:	185,597	123,976
Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,920	730
Non-operational deposits (all counterparties)	181,428	121,997
Unsecured debts	1,249	1,249
Secured wholesale financing	3,773	937
Additional liquidity requirements, of which:	120,669	18,850
Outflows related to derivative exposure and other collateral requirements	25,885	8,757
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	94,784	10,093
Other contractual funding obligations	11,227	11,227
Other contingent funding obligations	79,158	2,010
Total cash outflows	-	176,186
Cash inflows		
Secured lending (e.g. reverse repos)	1,553	-
Inflows from fully performing exposures	39,500	19,639
Other cash inflows	11,107	8,835
Total cash inflows	-	28,474
		Total adjusted value***
Total high-quality liquid assets (HQLA)		179,514
Total net cash outflows		147,712
Liquidity coverage ratio (%)		122%

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations in the quarter.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations. The number of observations used to calculate the averages in the reported quarter is 57.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

The average liquidity coverage ratio during the third quarter of 2023 (the average of the daily observations in the quarter) was 124% consolidated and for the stand-alone banking corporation, while the minimum requirement is 100%. The average ratio in the third quarter of 2023 increased in comparison to the liquidity coverage ratio in the fourth quarter of 2022, due to changes in the composition of depositors and types of deposits. In view of the volatility in the markets, particularly stock markets in the United States and in Israel and the NIS-foreign currency swap market, the Bank took action to maintain high liquidity levels in foreign currency.

From the outbreak of the Swords of Iron War to near the date of publication of the financial statements, there was no material change in liquidity ratios. The Bank is monitoring developments in the markets and maintaining appropriate liquidity levels in NIS and foreign currency.

The net stable financing ratio at the end of the third quarter of 2023 is 125%, consolidated, while the minimum requirement is 100%. The net stable financing ratio decreased in comparison to the ratio as at December 31, 2022, due to growth of funding needs (mainly in respect of credit and derivatives) and a decrease in stable financing sources in respect of wholesale deposits and repayment of issuances (bonds and contingent convertibles (CoCos)).

The liquid assets of the Bank mainly consist of Israeli government bonds in NIS and in foreign currency, United States government bonds in foreign currency, and deposits with central banks (the Bank of Israel and the Federal Reserve). The Bank manages the liquidity coverage ratio, and accordingly its liquid assets, separately with regard to the total ratio and the ratio in foreign currency only. For details of liquid assets by level, see the table below. The Board of Directors of the Bank has adopted an internal limit stricter than the regulatory LCR requirement, both for the stand-alone banking corporation and consolidated.

The main source of funding of the Bank is deposits from retail customers and small businesses in Israel, which have low liquidity risk relative to other resources. In addition, the Bank obtains financing through issues, deposits from corporate and financial companies, and more. Funding in foreign currency includes deposits from private customers and from corporate clients in Israel, foreign residents, Israeli companies abroad, repo deposits, issues of CDs and other instruments secured by the FDIC in the United States, and additional resources. The Bank monitors the concentration of funding sources, in various breakdowns, in both NIS and foreign currency, and complies with the internal limits in this area. The Bank does not rely on funding from the capital market as a major funding source. From the outbreak of the Swords of Iron War to near the date of publication of the financial statements, there was no material change in the structure of financing sources of the Bank.

Table G-2: Net stable financing ratio (NSFR), limited banking corporation and consolidated subsidiaries

	September 30, 2023				Weighted value
	Unweighted value by term to maturity				
	No maturity date*	Up to 6 months	6 months to 1 year	1 year or more	
Available stable financing (ASF) items					
Capital:	-	-	-	63,949	63,949
Supervisory capital	-	-	-	63,949	63,949
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	217,585	30,553	13,559	241,275
Stable deposits	-	80,726	7,094	4,952	88,381
Less stable deposits	-	136,859	23,459	8,607	152,894
Wholesale funding:	-	201,742	13,382	5,795	69,983
Operational deposits	-	-	-	-	-
Other wholesale funding	-	201,742	13,382	5,795	69,983
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	46,561	6,778	31,262	37,447
NSFR derivative liabilities	-	-	(2,622)	-	-
All other liabilities and equity not included in the above categories	-	49,183	6,778	31,262	37,447
Total available stable financing (ASF)	-	465,888	50,713	114,565	412,654
Required stable financing (RSF) items					
Total NSFR high-quality liquid assets (HQLA)	-	120,508	7,522	69,323	8,162
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	80,540	44,705	268,624	282,492
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	8,448	3,068	8,384	11,186
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	68,145	38,359	129,703	162,580
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	11,368	7,429	4,597	12,386
Performing residential mortgages, of which:	-	3,183	3,259	124,506	102,749
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	1,164	1,162	31,509	21,643
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	764	19	6,031	5,977
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	24,725	112	8,169	31,760
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	346	-	294
NSFR derivative assets	-	-	8,867	-	11,489
NSFR derivative liabilities before deduction of variation margin posted	-	-	280	-	280
Others	-	15,232	112	8,169	19,697
Off-balance sheet items	-	-	186,259	-	8,473
Total required stable financing (RSF)	-	-	-	-	330,887
Net stable financing ratio (NSFR) (%)	-	-	-	-	125%

* Items reported in the column "no maturity date" are items with no stated maturity date. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities, and physically traded commodities.

Table G-2: Net stable financing ratio (NSFR), limited banking corporation and consolidated subsidiaries (continued)

	September 30, 2022				Weighted value
	Unweighted value by term to maturity				
	No maturity date*	Up to 6 months	6 months to 1 year	1 year or more	
Available stable financing (ASF) items					
Capital:	-	-	-	59,128	59,128
Supervisory capital	-	-	-	59,128	59,128
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	230,115	8,305	12,753	231,731
Stable deposits	-	86,408	1,565	4,583	88,158
Less stable deposits	-	143,707	6,740	8,170	143,573
Wholesale funding:	-	227,119	9,964	4,397	72,881
Operational deposits	-	-	-	-	-
Other wholesale funding	-	227,119	9,964	4,397	72,881
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	40,053	5,549	28,806	34,225
NSFR derivative liabilities	-	-	1,698	-	-
All other liabilities and equity not included in the above categories	-	38,355	5,549	28,806	34,225
Total available stable financing (ASF)	-	497,287	23,818	105,084	397,965
Required stable financing (RSF) items					
Total NSFR high-quality liquid assets (HQLA)	-	143,245	9,128	56,836	6,838
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	79,631	35,926	253,497	266,242
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	4,413	3,005	7,784	9,948
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	69,089	29,611	120,808	151,098
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	12,094	8,200	4,697	13,200
Performing residential mortgages, of which:	-	3,285	3,276	119,674	98,964
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	1,193	1,188	30,194	20,817
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	2,844	34	5,231	6,232
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	25,108	103	9,677	31,407
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	803	-	683
NSFR derivative assets	-	-	9,724	-	8,026
NSFR derivative liabilities before deduction of variation margin posted	-	-	356	-	356
Others	-	14,225	103	9,677	22,342
Off-balance sheet items	-	-	182,206	-	8,332
Total required stable financing (RSF)	-	-	-	-	312,819
Net stable financing ratio (NSFR) (%)	-	-	-	-	127%

* Items reported in the column "no maturity date" are items with no stated maturity date. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities, and physically traded commodities.

Table G-2: Net stable financing ratio (NSFR), limited banking corporation and consolidated subsidiaries (continued)

	December 31, 2022				Weighted value
	Unweighted value by term to maturity				
	No maturity date*	Up to 6 months	6 months to 1 year	1 year or more	
Available stable financing (ASF) items					
Capital:	-	-	-	61,620	61,620
Supervisory capital	-	-	-	61,620	61,620
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	223,091	12,513	17,707	234,073
Stable deposits	-	84,458	1,990	5,655	87,781
Less stable deposits	-	138,633	10,523	12,052	146,292
Wholesale funding:	-	225,342	14,709	6,303	78,343
Operational deposits	-	-	-	-	-
Other wholesale funding	-	225,342	14,709	6,303	78,343
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	39,626	8,821	31,076	38,114
NSFR derivative liabilities	-	-	403	-	-
All other liabilities and equity not included in the above categories	-	39,223	8,821	31,076	38,114
Total available stable financing (ASF)	-	488,059	36,043	116,706	412,150
Required stable financing (RSF) items					
Total NSFR high-quality liquid assets (HQLA)	-	145,423	14,296	56,096	7,936
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	78,379	41,559	260,484	272,718
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	8,599	2,988	7,384	10,167
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	65,944	35,369	125,242	156,178
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	12,153	8,184	4,669	13,204
Performing residential mortgages, of which:	-	3,204	3,168	121,728	100,487
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	1,178	1,165	30,839	21,217
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	632	34	6,130	5,886
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	24,031	103	7,445	27,377
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	135	-	115
NSFR derivative assets	-	-	6,906	-	6,503
NSFR derivative liabilities before deduction of variation margin posted	-	-	200	-	200
Others	-	16,790	103	7,445	20,559
Off-balance sheet items	-	-	183,135	-	8,290
Total required stable financing (RSF)	-	-	-	-	316,321
Net stable financing ratio (NSFR) (%)	-	-	-	-	130%

* Items reported in the column "no maturity date" are items with no stated maturity date. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities, and physically traded commodities.

The Bank is in compliance with all regulatory and internal liquidity limits, including, among others, the LCR according to Proper Conduct of Banking Business Directive 221, the internal LCR model for thirty days and models for shorter and longer ranges, and the NSFR (net stable financing ratio) model. In accordance with Proper Conduct of Banking Business Directive 221, as at September 30, 2023, the Bank holds consolidated liquid assets (primarily reserves at central banks, tradable government securities, and coins and bills) for times of crisis (after haircuts) in the amount of NIS 164.9 billion, in addition to liquid bonds not recognized for the purposes of the calculation of liquid assets. In light of the assumptions regarding rollover of deposits in the ordinary course of business, and other assumptions, the Bank does not foresee liquidity problems that would necessitate the use of the liquid assets; however, it is prepared for the required scenarios.

Table G-3: Details of liquid assets, by level, as required in the Basel directives

	Balance	Average in the
	as at	as at
	September 30,	September 30,
	2023	2023
	NIS millions	
Level 1 assets	163,310	165,231
Level 2A assets	1,582	1,689
Level 2B assets	-	86
Total HQLA	164,892	167,006

	Balance	Average in the
	as at	as at
	September 30,	September 30,
	2022	2022
	NIS millions	
Level 1 assets	181,851	188,087
Level 2A assets	1,458	1,254
Level 2B assets	153	146
Total HQLA	183,462	189,487

	Balance	Average in the
	as at	as at
	December 31,	December 31,
	2022	2022
	NIS millions	
Level 1 assets	180,690	177,814
Level 2A assets	1,681	1,542
Level 2B assets	167	158
Total HQLA	182,538	179,514

H. Operational risk

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

In view of the Swords of Iron War, the Bank applied a series of processes and means to continue to operate optimally under the circumstances, including within business continuity. In general, the operational risks related to the war and the effects thereof are being continually examined and analyzed. Accordingly, controls and measures to mitigate the risks are being considered and implemented. In terms of information security and cyber risks, note that during the war the number of cyber attacks on targets in Israel, including the Bank, has grown, with no damage to the activity of the Bank to date. The Bank is taking action to mitigate this risk. In the area of business continuity, the Bank activated its business continuity plans as early as Saturday, the first day of the war, including through meetings of emergency teams; the transition of headquarters employees to remote work; closure of a few branches in conflict zones, and redirection of customers and employees to remote activity or other locations; adaptations of activity at other branches; operation of mobile branches; and continuous guidance to strengthen preparedness, with no substantial impairment of operations. The Bank is continually examining the situation and adapting its activity.

For additional information regarding operational risk and the management thereof, including information-technology risks, information security and cyber risks, cloud-computing risks, emergency preparedness, and insurance, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022](#).

I. Compliance risk

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

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

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

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

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

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

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

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

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

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

Further to the statements in Note 25F to the Financial Statements as at December 31, 2022, on May 1, 2023, with three years having elapsed from the date of the Deferred Prosecution Agreement ("DPA") and in accordance with the provisions thereof, the United States federal court (in New York) approved, by order, the dismissal of the prosecution and the criminal proceeding against the Bank. The aforesaid order concludes the criminal proceedings against the Bank. On April 30, 2023, the Non-Prosecution Agreement ("NPA") in respect of the FIFA investigation also ended, in accordance with the provisions thereof. For further details, see [Note 10C to the Condensed Financial Statements](#).

For additional information regarding compliance risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022](#).

J. Legal risk

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

For additional information regarding contingent liabilities and special commitments, see [Note 10 to the Condensed Financial Statements](#).

For additional information regarding legal risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022](#).

K. Reputational risk

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

For additional information regarding reputational risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022](#).

L. Regulatory risk

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

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

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

For additional information regarding regulatory risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022](#).

M. Economic risk

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

For details regarding conditions in the Israeli and global economy, see [the section "Economic and financial review" in the Report of the Board of Directors and Board of Management](#).

For additional information regarding economic risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022](#).

N. Strategic risk

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

Strategic risk is a function of the congruence (or non-congruence) of the organization's strategic goals with the environment in which it operates, the adaptation of the business plans developed to achieve these goals, resource allocation, and quality of implementation. As such, this risk constitutes forward-looking information. For additional information regarding strategic risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022](#).

O. Environmental risk

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

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

According to the NGFS, and subsequently the Banking Supervision Department in Israel, climate risks for a financial institution are risks arising from its exposure to risks caused by or related to climate change:

- Physical risks – Risks resulting from acute climate events (extreme events), such as floods, storms, heat/cold waves, and wildfires, and/or chronic processes with gradual development over time, such as rising temperatures, decreasing precipitation and desertification, rising sea levels, and others.
- Transition risks – Risks that arise due to disruptions caused in the process of transforming and adapting the global economy as required, according to scientific consensus and the Paris Agreement of 2016, to fight the sources of climate change, from an economy based on carbon dioxide and other greenhouse-gas emission intensive activities to a low/zero emissions economy. Factors driving this process are changes in regulation, legislation, and government policies; technological changes; market changes and changes in consumer preferences; changes in the area of litigation; and more.

Climate risks may be reflected in the various traditional financial risks accompanying the routine operations of the Bank, such as credit risk, market risk, operational risk, liquidity risk, and other risks, through various micro- and macroeconomic transmission channels, which may have an adverse effect on the financial robustness of businesses, households, and the economy in general, as well as other risks to the Bank such as reputational risk, regulatory risk, legal risk, and more. Climate risk is considered a complex and evolving field, in that it comprises, among other matters, systemic risk on a broad, unprecedented global scale; the period in which it may materialize is far longer than the usual range of business planning for banks; and it is characterized by material uncertainty.

During the period of the report, the Bank conducted an initial trial of analysis of an acute physical climate risk scenario, concerning exposure to an extreme flooding event of collateral for the housing-loan portfolio and the portfolio of corporate credit secured by real estate, and analysis of the effects of NGFS scenarios concerning the risks of orderly transition to net-zero and disorderly transition to net-zero on losses in the corporate credit portfolio, based on assumptions, limits, and various approximations. The results of the initial analyses indicated relatively low exposure. The Bank will continue to hone its capabilities in the area of running climate scenarios, and is preparing to apply a uniform climate scenario led by the Bank of Israel. For key and strategic indicators in the area of the environment and climate, see [the section “Key environmental, social, and governance \(ESG\) indicators” in the Report of the Board of Directors and Board of Management in the Annual Financial Statements for 2022.](#)

For additional information regarding environmental risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022.](#)

P. Model risk

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

On June 8, 2023, the Banking Supervision Department issued a draft Proper Conduct of Banking Business Directive on the subject of model risk management, regulating the principal aspects of the effective management of model risks. The Bank is examining the implications of the directive.

For additional information regarding model risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022.](#)