

# **Bank Hapoalim**

Report on Risks

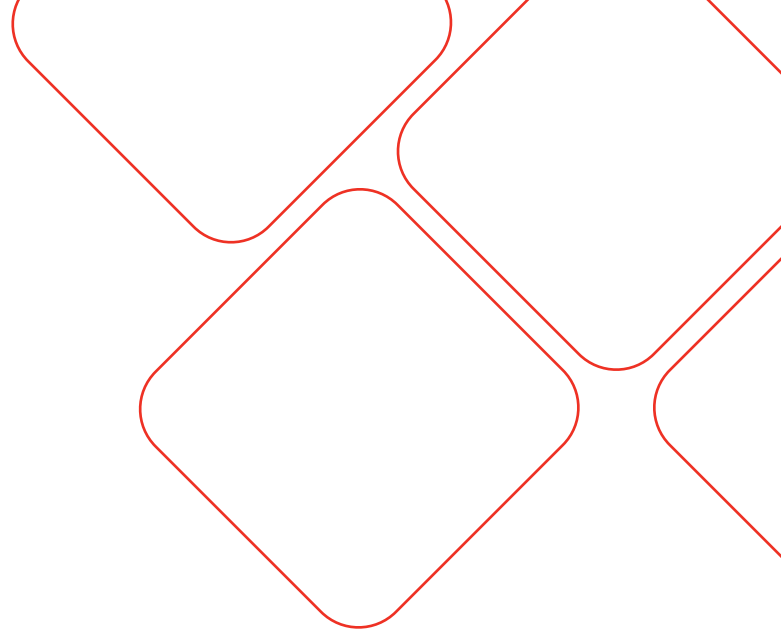
Pillar 3 Disclosure and Additional

Information Regarding Risks

as at March 31, 2024







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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.



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## Report on Risks

We are honored to present the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at March 31, 2024.

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, 2023, and the Condensed Financial Statements as at March 31, 2024.

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, May 19, 2024

## **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 March 31, 2024.



## 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				
	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
NIS millions					
<b>Available capital</b>					
Common equity Tier 1 capital	<b>54,142</b>	52,641	50,460	49,449	48,241
Common equity Tier 1 capital before effect of transitional directives <sup>(1)</sup>	<b>53,998</b>	52,388	50,189	49,160	47,935
Tier 1 capital	<b>54,142</b>	52,641	50,460	49,449	48,241
Tier 1 capital before effect of transitional directives <sup>(1)</sup>	<b>53,998</b>	52,388	50,189	49,160	47,935
Total capital	<b>67,589</b>	65,979	64,320	63,061	61,704
Total capital before effect of transitional directives <sup>(1)</sup>	<b>67,447</b>	65,731	64,036	62,777	61,408
<b>Risk-weighted assets</b>					
Total risk-weighted assets (RWA)	<b>446,945</b>	437,852	437,474	429,440	424,532
Total risk-weighted assets (RWA) before effect of transitional directives <sup>(1)</sup>	<b>447,133</b>	438,181	437,826	429,815	425,346
<b>Capital-adequacy ratios</b>					
Common equity Tier 1 capital ratio	<b>12.11%</b>	12.02%	11.53%	11.51%	11.36%
Common equity Tier 1 capital ratio before effect of transitional directives <sup>(1)</sup>	<b>12.08%</b>	11.96%	11.46%	11.44%	11.27%
Tier 1 capital ratio	<b>12.11%</b>	12.02%	11.53%	11.51%	11.36%
Tier 1 capital ratio before effect of transitional directives <sup>(1)</sup>	<b>12.08%</b>	11.96%	11.46%	11.44%	11.27%
Total capital ratio	<b>15.12%</b>	15.07%	14.70%	14.68%	14.53%
Total capital ratio before effect of transitional directives <sup>(1)</sup>	<b>15.09%</b>	15.00%	14.63%	14.61%	14.44%
Common equity Tier 1 capital ratio required by the Banking Supervision Department <sup>(2)</sup>	<b>10.23%</b>	10.23%	10.23%	10.23%	10.23%
Available common equity Tier 1 capital ratio beyond the requirement of the Banking Supervision Department <sup>(2)</sup>	<b>1.88%</b>	1.79%	1.30%	1.28%	1.13%
<b>Leverage ratios</b>					
Total exposures	<b>749,579</b>	760,396	745,857	738,952	738,726
Total exposures before effect of transitional directives <sup>(1)</sup>	<b>749,654</b>	760,528	745,998	739,102	738,885
Leverage ratio	<b>7.22%</b>	6.92%	6.77%	6.69%	6.53%
Leverage ratio before effect of transitional directives <sup>(1)</sup>	<b>7.20%</b>	6.89%	6.73%	6.65%	6.49%

(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				
	<b>March 31, 2024</b>	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
<b>Liquidity coverage ratio</b>					
Total high-quality liquid assets	<b>171,739</b>	175,662	167,006	175,609	173,662
Total net cash outflows	<b>125,440</b>	136,607	134,254	138,971	136,279
Liquidity coverage ratio (in %)	<b>137%</b>	129%	124%	126%	127%
	On a consolidated basis, as at				
	<b>March 31, 2024</b>	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
<b>Net stable financing ratio</b>					
Total available stable financing	<b>426,230</b>	418,413	412,654	407,381	410,435
Total required stable financing	<b>330,482</b>	327,568	330,887	326,541	323,578
Net stable financing ratio (%)	<b>129%</b>	128%	125%	125%	127%

## **B.2. Risk assessment and management**

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

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

On May 6, 2024, the CEO of the Bank, Dov Kotler, gave notice of his intention to conclude his service. For further information, see [the section "Other matters" in the Corporate Governance Report](#).

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, 2023](#).

### **B.3. Top and emerging risks**

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

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

- **Macroeconomic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy, significant changes in monetary policies and interest-rate curves, market volatility, changes in prices of financial assets in Israel and worldwide and in real-estate prices, and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. While economic conditions improved in the first quarter of 2024 in comparison to the preceding quarter, there is significant uncertainty regarding future economic developments, in light of the potential developments of the war itself as well as political and economic factors, including the growing budget deficit. Before the Swords of Iron War, the risks to the economy stemmed from economic deceleration due to global circumstances, combined with a high interest-rate environment, which led to a slowdown in the real-estate sector and in other industries; a decrease in investments in the high-technology industry; and the potential impacts of the promotion of changes to the judicial system, without a broad consensus, led by the government. The war intensified macroeconomic risks for other reasons, as described below, whereas the factors that had an effect prior to the war are less influential at this stage. The Bank's multi-annual strategic plan includes certain assumptions regarding the macroeconomic environment, taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations.

**The Swords of Iron War and the economy in Israel:** The war that began on October 7, 2023, caused, among other effects, disruptions of economic activity in Israel in the fourth quarter of 2023, due to a large-scale call-up of reserve military forces, partial shutdown of commercial activity, a decrease in consumption, a significant increase in government expenditures and in the fiscal deficit, and a sharp contraction of GDP. The effects of the war were considerably more moderate in the first quarter of 2024, due to fewer people drafted for reserve military duty, government support, and the partial resumption of routine economic activity. Accordingly, and in reference to the low comparison point of the preceding quarter, a growth rate of approximately 14.1% was recorded in the first quarter. Some sectors are still experiencing significant damage, particularly the construction industry, which is affected by the absence of Palestinian workers entering Israel, and foreign tourism, which is almost nonexistent. In the labor market, the unemployment rate decreased to 4.1% in March 2024; some workers are still temporarily absent from the workforce due to circumstances caused by the war. The war, particularly to the extent that it is prolonged and/or expands, has the potential to exert a negative effect on the labor market, the state budget, the growing deficit and its financing costs, the Israeli economy, the customers of the Bank, and the Bank itself.

The war has raised the level of country risk, which has been reflected in an increase in the State of Israel's risk premium in the financial markets; a downgrade of its credit rating by the rating agencies Moody's and S&P, to A2 and A+, respectively, including a negative rating outlook; and a negative rating outlook from Fitch. Ratings of the Israeli banks, including the Bank, are influenced by the rating of the State of Israel; the rating agencies have downgraded the credit rating and/or rating outlook of the Bank accordingly. The continuation of the war and the worsening of fiscal conditions have increased the risk of further downgrades of the credit rating of the State of Israel. The direct effect of the downgrade of the credit rating of the State of Israel by S&P in April will lead, as at the report date, to a decrease of approximately 0.25% and approximately 0.31% in the common equity Tier 1 capital ratio and the total capital ratio of the Bank, respectively, reflected in the second quarter of 2024. We emphasize that since 2021, the Bank has used S&P as a single rater for country ratings for the purposes of capital-adequacy measurement; accordingly, rating downgrades by other agencies, such as Moody's, that have occurred and/or may occur do not directly affect the capital ratio. Additional rating downgrades, if any, of the State of Israel by S&P would have a direct effect on the capital-adequacy ratios of the Bank if the rating falls to BBB+ or lower. 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 combat zones. 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:** Global inflation has started to fall, though at a slow pace indicating "sticky" inflation. Accordingly, the policies of the central banks remain tight, and forecasts of decreases in interest rates are more moderate than last quarter. In view of the tight monetary policy, global growth was surprisingly positive, with an emphasis on the United States. Labor markets continue to show surplus demand for employees, upward pressures on wages, and low unemployment rates; however, the high interest rate concurrently has a negative effect on real-estate prices, and indirectly on banks with exposure to this industry. The war in Israel and the events in the Middle East in general, which follow the war in Ukraine and the tensions in other world regions, have heightened tensions between blocs and created risks to future growth.

- **Information-security risk and cyber incidents:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent penetration of malware, 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 an all-around defense. Note that the transition of employees to remote work, transition to cloud computing, and increased digitization of the activity of the Bank, including an increase in remote work with customers, concurrently with an increase in threats and attempted attacks on the Bank and its customers, have intensified the risk. During the war, the number of cyber attacks on targets in Israel, including the Bank, has increased, with no damage to its activity to date, and the scope of fraud attempts against the Bank and its customers has grown. The Bank is taking action to mitigate this risk.

- Regulatory environment in Israel and overseas:** Local and international regulatory reforms have implications for the business of the Bank, in Israel and overseas. In Israel, several regulatory initiatives have been formulated over the last few years, primarily concerned with promoting 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. As part of the legislative amendments for the achievement of the state budget goals for 2024, in view of the war, approval has been granted for a special payment to be imposed on banks from April 2024 to the end of 2025, at a rate of 6% of the profit they generate from their activity in Israel (4.5% in 2024, according to the proportional part of the year). Other proposals and suggested measures include the announcement by the Competition Authority of the possibility of declaring the banks a concentration group and issuing directives on this matter; the proposal of the Ministry of Finance to create a default deposit; direct legislative intervention in interest rates on deposits, current accounts, and mortgages through private bills; legislative amendments proposed by the Israel Securities Authority concerning the creation of money-market funds with similar characteristics to deposits, exclusion of the funds from the Advising Law, and expansion of the funds' distribution channels (these legislative amendments have been passed by the Knesset in a first reading); and an outline for graduated licensing and regulation of non-bank entities. For further details, see [the section "Regulatory initiatives" in the Corporate Governance Report](#). The regulatory initiatives and trends may adversely affect the banking system in general and the Bank in particular. At this stage, it is not possible to estimate the effects of these changes, if they occur, on the Bank. Further, these effects may not be immediate; instead, there may be slower, prolonged effects derived from processes of gradual change in the Bank's environment (customers, market players, etc.), alongside the gradual preparations of the Bank for the necessary adaptation of its operations. Expansions and extensions of the outlines for aiding customers in the context of the war may also affect the results of the Bank.
- Competitive and strategic risk:** Competition from big tech companies (Apple, Google, Amazon, and others), fintech companies, and digital banks, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the banking industry, including a proposed outline for graduated licensing and regulation of non-bank entities, bank account switching, and open banking, as well as competition in the business sector, may affect the business results of the Bank, including its credit spreads. The Bank has formulated a comprehensive strategic plan for the period through 2026, encompassing, among other matters, action in the areas of the core activities of the Bank, innovation, technology, the structure of operations, and more, in order to respond to such threats, and updates this plan periodically.

- Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism (including international sanctions), provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with breaches of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. The Swords of Iron War and the state of emergency are intensifying compliance risks arising from terrorism financing and money laundering. The compliance function at the Bank has adapted its activity to the state of emergency and war, through a series of measures focused, among other matters, on the risks arising from the current situation. The scope of international sanctions has been expanded, including in relation to the Russia-Ukraine war, and subsequently the Swords of Iron War. International sanctions have also been imposed on Israeli individuals and non-profits. Compliance has adapted its activity through a series of measures, including monitoring and tracking aimed at reducing compliance risks arising from failure to apply the international sanctions. The Bank provides correspondent services to Palestinian banks, under letters of indemnity and immunity received from the state. The letters of indemnity and immunity are extended from time to time. On March 31, 2024, such an extension was granted for only ninety days. The Bank has given advance notice to the representatives of the Palestinian banks that, as the letters of indemnity and immunity were extended until June 30, 2024, its services for the Palestinian banks will be discontinued on that date. The Bank noted that it may reconsider its position according to developments; for example, if the letters of indemnity and immunity are extended beyond the aforesaid date.
- Environmental risk:** Around the world, the understanding has grown in recent years that the materialization of environmental risks and climate risks may cause harm to the economy, and, in extreme cases, may cause significant damage to banks and to the financial system, as a result of the materialization of financial and non-financial risks in the long term. These effects may also be expressed within other risks to which the banking corporation is exposed in the course of its activity, such as credit risk (through the effect on the financial resilience of borrowers and the value of collateral), market and investment risk, operational risk, legal risk, reputational risk, and more. These risks, particularly climate risks and the impact of processes of transition to a low greenhouse-gas emissions economy, have unique characteristics of uncertainty. At this stage, it is too early to estimate the potential long-term effects of these changes on the Bank.

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

For details regarding legal proceedings, see [Note 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.4. Impacts of the Swords of Iron War**

On October 7, 2023, the organization Hamas mounted a lethal terrorist attack on the State of Israel, consisting of rocket launches, a land invasion of military bases and civilian communities, and the murder and abduction of civilians and soldiers. The State of Israel declared a state of war and an extensive call-up of reserve military forces, which at the report date has continued, on a reduced scale relative to the beginning of the war. At the date of the report, the military is fighting within the Gaza Strip, at varying intensity over time; 128 hostages are being held by Hamas; exchanges of fire are occurring in northern Israel, with no ground operation; some residents of areas in northern and southern Israel near the combat zones are still displaced from their homes; in the Red Sea, Houthis are impairing the freedom of navigation and attempting to attack southern Israel; and Iran has attacked Israel using drones and missiles, in a one-time occurrence, up to this point. Worldwide, calls to end the war and/or reduce economic ties with Israel are increasing, as has occurred with Turkey. With regard to economic conditions, in the third quarter of 2023, prior to the Swords of Iron War, a certain degree of deceleration of economic growth was apparent. Inflation and rising interest rates had impaired households' purchasing power, although the labor market remained tight. The real-estate sector saw a low quantity of transactions, an increase in the inventory of unsold homes, and slight price declines. The war disrupted economic activity in Israel in the fourth quarter of 2023, due to a large-scale call-up of reserve military forces, partial shutdown of commercial activity, a decrease in GDP and consumption, and a significant increase in government expenditures and in the fiscal deficit. During the first quarter of 2024, the military reserve draft was reduced, and consumption and the GDP showed significant recovery, as routine economic activity resumed to some extent, along with significant government support. Accordingly, in reference to the low comparison point of the preceding quarter, a growth rate of approximately 14.1% was recorded in the first quarter. However, some sectors are still experiencing significant damage, particularly foreign tourism, which is currently almost nonexistent, and construction, which is affected by the absence of Palestinian workers entering Israel. Nonetheless, in the construction industry, the quantity of transactions and prices rose in the first quarter. The labor market also showed improvement during the first quarter, as economic routines gradually resumed and some of the people displaced from southern Israel returned to their homes, but there are still workers temporarily absent from the workforce due to the circumstances caused by the war. While economic conditions improved in the first quarter of 2024 in comparison to the preceding quarter, there is significant uncertainty regarding future economic developments, in light of the potential developments of the war itself as well as political and economic factors, including the growing budget deficit.



The war, particularly to the extent that it is prolonged and/or expands to additional fronts, has the potential to exert a negative effect on the Israeli economy, the customers of the Bank, and the Bank itself. Potential risks include a possible decline in private consumption; a decrease in investments in the economy, including foreign investments and investments in the high-technology industry; reduction or severing of economic relationships; a decrease in GDP; a significant budget deficit; raised taxes; further downgrades of the credit rating of the state and of the Bank; an increase in the risk premium of the state; a decrease in revenues in some economic sectors; damage to the tourism and construction industries; a decrease in real-estate prices; an increase in unemployment; damage to businesses; an increase in allowances for credit losses, as a result of these factors; market shocks, including depreciation; capital-market declines; changes in yield curves and in the interest rate of the central bank, affecting profitability and/or capital ratios; and more. 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 beginning of the period of the war, enabling it to withstand shocks, and the Bank continues to maintain these ratios at appropriate levels in view of this situation. At this stage, the Bank cannot estimate how the war may develop, and all the more so its economic and financial effects, or the duration of such effects; accordingly, it is difficult to estimate the future impacts on the condition of the Bank's customers and on the Bank itself, while the government's support, the duration and future extent of which are unknown, and the growing budget deficit also have potential economic effects. To help customers cope with the impacts of the war, when the war began the Bank announced a series of significant benefits, differentiating customers directly affected by the war from the rest of the population. These include benefits according to the outline issued by the Banking Supervision Department, including deferral of payments (some free of charge), an exemption from interest on negative balance in current accounts, and an exemption from fees in current accounts for specified population groups, in accordance with various conditions, for a period of three months, which has since been extended twice, by three additional months each time (at the report date – until June 2024), as well as additional benefits beyond the outline. These additional benefits include the option to extend the mortgage schedule by up to eight years (for customers who defer more than three payments), an exemption from interest on business credit for three months for reserve soldiers, and loan forgiveness for certain population groups harmed by the war, in addition to a full exemption from mortgage payments for three months for Otef Aza (Gaza Envelope) customers (in the range of up to 7 km from the border) granted in 2023. In addition, the Bank established a credit fund in the amount of NIS 750 million for bridge loans, interest-free or with reduced interest. 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 effect of the total aforesaid benefits, at this stage, will be affected by the rate of their utilization by customers. For details of the utilization to date and the potential future utilization of the benefits, see the table below. The benefits are recorded to profit and loss when exercised by customers, as detailed in the table below. The Bank is continuing to examine its policy regarding the benefits, and may extend them, taking into consideration the continuation and/or expansion of the war and/or regulatory outlines. The reliefs for customers, particularly if they are extended, may affect the future profitability of the Bank.

The Bank has decided to grant aid in the amount of up to NIS 100 million, through the foundation of the Poalim Rebuild Fund, to help restore the community life of the families and businesses of the Otef Aza region. The fund is headed by a public committee, which establishes the fund's policy, makes decisions regarding project financing, and monitors its ongoing activities. The public committee is headed by Major General (Res.) Amram Mitzna; members include other public figures and representatives of the management of the Bank. The fund will work to restore the community life of the families and businesses of the Western Negev region, with the aim of rebuilding the resilience and unique community life of the region in the areas of informal education, emotional and community resilience, and economic resilience. The aid is planned to be distributed within three years of the foundation of the fund, with costs to be recorded to profit and loss over this period, at the pace exercised. The Bank is also working to support the needs of the society and community of Israel during the war through monetary donations, assistance for businesses and households under the auspices of the Financial Growth Center, and volunteering by Bank employees. As early as October 8, 2023, the Bank set up an emergency network and provided emergency aid at a volume of approximately NIS 10 million in the fourth quarter of 2023 for immediate needs in various areas, and worked to raise funds for similar causes through Bit. In addition, according to the outline agreed upon within the process of formulating the legislative amendments for the achievement of the state budget goals for 2024, in view of the Swords of Iron War, the Bank will donate a total of approximately NIS 29 million to a fund administered by the Jewish Agency, as aid for reserve soldiers who are small-business owners and their spouses. This expense was included in the results of the first quarter of 2024. All of this is in addition to the tens of millions of shekels in community aid routinely given by the Bank every year through Poalim Community, which has worked for more than forty years to reduce social and economic inequalities and create equal opportunities in Israel.

In terms of credit risk, the Bank is regularly examining its exposure to the war, the developments in past-due loan payments of private and business customers, and its exposure to economic industries and sectors expected to be significantly hurt. These are primarily sectors related to tourism, construction and real estate, high technology, finance, and agriculture, most of which had already been affected by market conditions prior to the outbreak of the war. The real-estate industry is expected to continue to be affected by difficulty in making progress on projects; however, the quantity of transactions and prices of residential real estate rose during the first quarter. As noted, the Bank cannot estimate the duration or developments of the war, and correspondingly the extent of damage in each of these areas, including in connection with the payment deferrals. Credit losses in the first quarter of 2024 amounted to income of NIS 14 million, mainly due to a certain degree of improvement in economic conditions in this quarter, and correspondingly in economic forecasts, beyond the forecasts taken into consideration by the Bank at the end of 2023. This was further to provisions for credit losses of NIS 662 million and NIS 453 million in the third and fourth quarters of 2023, respectively, most of which was in respect of an increase in the collective allowance, mainly as a result of the effect of macroeconomic forecasts, particularly the forecast effects of the Swords of Iron War. The cumulative provision for credit losses in the last three quarters is approximately NIS 1.1 billion, primarily reflecting the expectation of worsening economic data in the Israeli economy since the outbreak of the Swords of Iron War. For further details and for comments on the different scenarios for the development of the allowance for credit losses, see [the section "Credit risk," below](#).

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

The credit rating agencies have reacted to the developments: Moody's and S&P downgraded the state's credit rating to A2 and A+, respectively, including a negative rating outlook, which reflects the possibility of additional rating downgrades, while Fitch revised the state's debt rating outlook to negative, reflecting a risk of a rating downgrade in the near term. Ratings of the Israeli banks, including the Bank, are influenced by the rating of the State of Israel; the rating agencies have downgraded the credit rating and/or rating outlook of the Bank accordingly. The downgrade of the credit rating of the State of Israel by S&P leads, as at the report date, to a decrease of approximately 0.25% and approximately 0.31% in the common equity Tier 1 capital ratio and the total capital ratio of the Bank, respectively; this impairment will be reflected in the ratio during the second quarter. There may also be indirect negative effects of the rating downgrade, including further devaluation; possible damage to liquidity in foreign currency; an increase in the yield curves of Israeli government bonds, and a subsequent increase in the Bank's funding costs and further impairment of the capital ratio; 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. Additional rating downgrades of the State of Israel by S&P, if any, would have a direct effect on the capital-adequacy ratios of the Bank only if the rating falls to BBB+ or lower.

In terms of the operations of the Bank, at this time the effect on the operational activity of the Bank is minor. The Bank is continually examining the situation and adapting its activity. Compliance 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 convening a management committee, as needed, dedicated to monitoring the financial situation and handling the financial crisis, as it develops. This committee and the Board of Management and the Board of Management Committee on Risk Management and Compliance regularly review a benchmark scenario and various stress scenarios for the development of the crisis and its financial effects on the economy, the customers of the Bank, and the Bank, and the effects on credit risk, counterparty risk, liquidity, the proprietary portfolio, the dealing room, interest-rate exposures, and more. The committee reports to the Board of Directors and to the Risk Management Committee of the Board of Directors.

As described above, the Bank is allowing customers to defer loan payments, in accordance with the outline of the Bank of Israel or other outlines at the initiative of the Bank, and supporting its customers through a range of benefits. Details regarding activities to benefit borrowers in coping with the war follow.

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

	For the three months ended March 31, 2024				Total
	Housing	Private individuals – other	Small businesses and microbusinesses	Mid-sized businesses	
NIS millions					
<b>Effect of benefits granted by the Bank in coping with the war</b>					
Modifications of terms of debts*	9	28	17	-	54
Interest-free or reduced-interest loans	-	1	-	-	1
Waiver of fees	-	15	7	1	23
Other benefits	-	-	3	-	3
Total benefits utilized in the three months ended March 31, 2024	9	44	27	1	81
Total benefits utilized up to December 31, 2023	46	49	64	-	159
Total benefits utilized up to March 31, 2024	55	93	91	1	240
Unutilized benefits	139	85	79	-	303
Total benefits assuming full utilization	194	178	170	1	543

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

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

	<b>March 31, 2024</b>					<b>Total</b>
	<b>Housing</b>	<b>Private individuals – other</b>	<b>Small businesses and microbusinesses</b>	<b>Mid-sized businesses</b>	<b>Large businesses</b>	
NIS millions						
<b>Additional information regarding activities to benefit borrowers in coping with the war</b>						
Balance of credit with modification of terms of debts <sup>(1)</sup>	<b>14,983</b>	<b>2,586</b>	<b>5,484</b>	<b>2,739</b>	<b>3,526</b>	<b>29,318</b>
Amount of deferred payments <sup>(2)</sup>	<b>309</b>	<b>325</b>	<b>869</b>	<b>245</b>	<b>219</b>	<b>1,967</b>
Average payment deferral in months <sup>(2)</sup>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>	
(1) Of which: balance of credit where payment deferral has ended	<b>9,429</b>	<b>1,761</b>	<b>4,137</b>	<b>1,586</b>	<b>3,096</b>	<b>20,009</b>
(1) Of which: problematic credit	<b>102</b>	<b>53</b>	<b>162</b>	<b>48</b>	<b>70</b>	<b>435</b>
(1) Of which: credit of borrowers experiencing financial difficulty the terms of which have been modified	<b>4</b>	<b>45</b>	<b>41</b>	<b>13</b>	<b>-</b>	<b>103</b>
Balance of interest-free or reduced-interest loans granted		<b>97</b>	<b>582</b>			<b>679</b>
Average interest rate		<b>5.88</b>	<b>5.53</b>			<b>5.59</b>
Average prime interest rate during the relevant period		<b>6.00</b>	<b>6.00</b>			<b>6.00</b>
<b>Loans granted within state-backed funds</b>						
Credit balance			<b>949</b>	<b>159</b>	<b>85</b>	<b>1,193</b>
Average interest rate			<b>6.53</b>	<b>7.28</b>	<b>7.53</b>	<b>6.70</b>
Of which:						
Balance of credit granted with financing by the Bank of Israel			<b>622</b>			<b>622</b>
Average interest rate			<b>6.00</b>			<b>6.00</b>
<b>Balance of loans granted with financing by the Bank of Israel (including through state-backed funds)</b>						
Credit balance			<b>2,282</b>			<b>2,282</b>
Average interest rate			<b>5.94</b>			<b>5.94</b>

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

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

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

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

## B.5. Review of weighted risk-adjusted assets

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

	Risk-weighted assets		Minimum capital requirements*
	March 31, 2024	December 31, 2023	March 31, 2024
NIS millions			
Credit risk (standardized approach)**	<b>387,854</b>	380,808	<b>52,360</b>
Counterparty credit risk (standardized approach)	<b>8,415</b>	8,858	<b>1,136</b>
Credit valuation adjustment (CVA)	<b>4,786</b>	4,560	<b>646</b>
Settlement risk	-	-	-
Securitization exposures (standardized approach)	<b>22</b>	23	<b>3</b>
Amounts below deduction thresholds (subject to 250% risk weight)	<b>9,760</b>	9,648	<b>1,318</b>
<b>Total credit risk</b>	<b>410,837</b>	403,897	<b>55,463</b>
Market risk (standardized approach)	<b>5,349</b>	4,245	<b>722</b>
Operational risk	<b>30,759</b>	29,710	<b>4,152</b>
<b>Total</b>	<b>446,945</b>	437,852	<b>60,337</b>

\* 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

	<b>March 31, 2024</b>	March 31, 2023	December 31, 2023
	NIS millions		
<b>Common equity Tier 1 capital</b>			
<b>Common equity Tier 1 capital – instruments and retained earnings</b>			
Ordinary share capital issued by the banking corporation and premium on ordinary shares included in common equity Tier 1 capital	<b>8,225</b>	8,213	8,225
Retained earnings, including dividends proposed or declared after the balance sheet date	<b>47,861</b>	42,829	46,275
Accumulated other comprehensive income and disclosed retained earnings	<b>(2,038)</b>	(2,927)	(2,070)
Common equity Tier 1 capital before supervisory adjustments and deductions	<b>54,048</b>	48,115	52,430
<b>Common equity Tier 1 capital – supervisory adjustments and deductions</b>			
Deferred tax assets, realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	<b>3</b>	4	3
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	<b>26</b>	22	19
Deferred tax assets arising from timing differences in amounts exceeding 10% of common equity Tier 1 capital	-	-	-
Additional supervisory adjustments and deductions established by the Banking Supervision Department	<b>(123)</b>	(152)	(233)
Of which: additional supervisory adjustments to common equity Tier 1 capital	<b>(123)</b>	(152)	(233)
Of which: in respect of the efficiency plans	<b>(53)</b>	(123)	(70)
Of which: in respect of wage tax	-	-	-
Of which: in respect of the business of the corporation with related persons	-	127	-
Of which: in respect of expected credit losses	<b>(91)</b>	(183)	(183)
Of which: in respect of non-accruing housing loans	<b>21</b>	27	20
Total supervisory adjustments and deductions in common equity Tier 1 capital	<b>(94)</b>	(126)	(211)
Common equity Tier 1 capital	<b>54,142</b>	48,241	52,641
Tier 1 capital	<b>54,142</b>	48,241	52,641



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

	<b>March 31, 2024</b>	March 31, 2023	December 31, 2023
	NIS millions/percent		
<b>Tier 2 capital</b>			
<b>Tier 2 capital – instruments and provisions</b>			
Instruments issued by the banking corporation (not included in Tier 1 capital) and premium on such instruments	<b>8,309</b>	5,431	8,269
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	-	3,116	-
Collective allowances for credit losses before the effect of related tax	<b>5,156</b>	4,916	5,069
Tier 2 capital before deductions	<b>13,465</b>	13,463	13,338
<b>Tier 2 capital – deductions</b>			
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation	<b>18</b>	-	-
Tier 2 capital	<b>13,447</b>	13,463	13,338
Total capital	<b>67,589</b>	61,704	65,979
<b>Risk-weighted assets</b>			
Total risk-weighted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	<b>446,469</b>	424,069	437,387
Of which: credit risk assets	<b>410,361</b>	392,819	403,432
Of which: market risk assets	<b>5,349</b>	5,180	4,245
Of which: operational risk assets	<b>30,759</b>	26,070	29,710
Total risk-weighted assets	<b>446,945</b>	424,532	437,852
<b>Capital ratios and capital preservation cushions</b>			
Common equity Tier 1 capital	<b>12.11%</b>	11.36%	12.02%
Tier 1 capital	<b>12.11%</b>	11.36%	12.02%
Total capital	<b>15.12%</b>	14.53%	15.07%
<b>Minimum requirements established by the Banking Supervision Department</b>			
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.	<b>10.23%</b>	10.23%	10.23%
The required minimum total capital ratio is 13.5%	<b>13.50%</b>	13.50%	13.50%
<b>Amounts below the deduction threshold (before risk weighting)</b>			
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	<b>714</b>	473	758
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	<b>115</b>	106	115
Deferred tax assets arising from timing differences, below the deduction threshold	<b>3,864</b>	3,466	3,876
<b>Ceiling for inclusion of provisions in Tier 2</b>			
Provision qualifying for inclusion in Tier 2, with reference to exposures under the standardized approach, before application of the ceiling	<b>6,791</b>	5,549	6,728
Ceiling for inclusion of provision in Tier 2 under the standardized approach	<b>5,156</b>	4,916	5,069

## **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. In the European Union, implementation of the standards included in the update will commence on January 1, 2025. At this stage, the date of implementation in Israel has not yet been determined.

### **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 has been granted. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank required by the Banking Supervision Department, on a consolidated basis, as at March 31, 2024, 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.

Effective capital-management ensures:

- Efficient allocation of capital during the ordinary course of business of the Bank.
- A robust capital base serving as a cushion against unexpected risks to which the Bank is exposed, supporting business strategy, and allowing compliance at all times with the regulatory minimum capital requirement. For this purpose, the Bank takes into account not only the current status of capital but also future developments in the capital base and in capital requirements.

In order to maintain a thorough and effective capital-management process, a specialized department manages capital at the Bank, reporting to the CFO. The department oversees routine administration and control of all matters related to the management and planning of capital at the Bank, including the following matters: capital planning, control over capital adequacy and compliance with risk-adjusted asset objectives, contingency plans for extreme scenarios, and proactive capital management according to needs. For that purpose, the department is responsible for monitoring developments in regulation in connection with capital management, in Israel and globally, and advanced capital-management methods at banks worldwide. The department is also responsible for the implementation of methodologies for the measurement of economic capital and economic profitability. These methodologies are used to make decisions according to risk-adjusted returns at the various levels of management at the Bank. The Risk Management Division serves as the second line of defense for risk management.

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

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

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

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

The sensitivity of the capital reserve in respect of bonds available for sale, net, after tax effect, to a theoretical increase of 1% in the risk-free yield curve and in the credit risk spread is estimated at a decrease in the amount of approximately NIS 1.0 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.

Since 2021, the Bank has used S&P as a single rater for country ratings for the purposes of capital-adequacy measurement. As noted in the section "Economic review," above, in April 2024 S&P downgraded the credit rating of the State of Israel to A+. The rating downgrade leads, as at the report date, to a decrease of approximately 0.25% and approximately 0.31% in the common equity Tier 1 capital ratio and the total capital ratio of the Bank, respectively; this impairment will be reflected in capital-adequacy ratios during the second quarter of 2024.

Additional rating downgrades of the State of Israel by S&P, if any, would have a direct effect on the capital-adequacy ratios of the Bank only if the rating falls to BBB+ or lower.

### **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.

Due to the Swords of Iron War, the Banking Supervision Department issued a guideline concerning capital planning and profit distribution policy pursuant to which banking corporations were 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. Taking into consideration this guideline of the Banking Supervision Department, in November 2023 and March 2024 the Board of Directors of the Bank declared the distribution of dividends at a rate of approximately 20% of the net profit of the Bank for the third quarter of 2023 and the fourth quarter of 2023.

At the date of approval of these financial statements, the Board of Directors of the Bank resolved, in light of the Bank's robust financial position in relation to the various capital requirements and its significant capital surpluses, with due attention to the geopolitical conditions and the safety margins required in various potential scenarios, to declare the distribution of dividends at a rate of approximately 40% of the net profit of the first quarter of 2024, in the amount of NIS 775 million, to be paid on June 10, 2024.

### **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.

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

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

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

	<b>March 31, 2024</b>	March 31, 2023	December 31, 2023
	NIS millions		
Total consolidated assets as per published financial statements	<b>665,893</b>	666,665	686,530
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	<b>8,934</b>	2,232	2,454
Adjustments for securities financing transactions	-	-	-
Adjustments for off-balance sheet items	<b>73,862</b>	69,133	72,003
Other adjustments	<b>890</b>	696	(591)
Exposure for the purposes of the leverage ratio	<b>749,579</b>	738,726	760,396

**Table C-3: Leverage ratio disclosure**

	<b>March 31, 2024</b>	March 31, 2023	December 31, 2023
	NIS millions/percent		
<b>On-balance sheet exposures</b>			
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	<b>641,894</b>	625,718	648,727
Asset amounts deducted in determining Tier 1 capital	<b>(3)</b>	(4)	(3)
Total on-balance sheet exposures (excluding derivatives and securities financing transactions)	<b>641,891</b>	625,714	648,724
<b>Derivative exposures</b>			
Replacement cost associated with all derivatives transactions	<b>7,087</b>	7,284	6,761
Add-on amounts for potential future exposure associated with all derivatives transactions	<b>22,760</b>	18,653	20,922
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	<b>29,847</b>	25,937	27,683
<b>Securities financing transaction exposures</b>			
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions	<b>3,979</b>	17,942	11,986
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	<b>3,979</b>	17,942	11,986
<b>Other off-balance sheet exposures</b>			
Off-balance sheet exposure at gross notional amount	<b>224,931</b>	210,052	219,988
Adjustments for conversion to credit equivalent amounts	<b>(151,069)</b>	(140,919)	(147,985)
Off-balance sheet items	<b>73,862</b>	69,133	72,003
<b>Capital and total exposures</b>			
Tier 1 capital*	<b>54,142</b>	48,241	52,641
Total exposures*	<b>749,579</b>	738,726	760,396
<b>Leverage ratio</b>			
Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218	<b>7.22%</b>	6.53%	6.92%
Minimum leverage ratio required by the Banking Supervision Department in the period of the Temporary Order	<b>5.50%</b>	5.50%	5.50%
Minimum leverage ratio required by the Banking Supervision Department after the end of the Temporary Order	<b>6.00%</b>	6.00%	6.00%

\* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department. The effect of the relief in respect of the efficiency plans on the leverage ratio as at March 31, 2024, 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. Adjustments in respect of the effect of the implementation of accounting principles concerning current expected credit losses are to be gradually reduced until December 31, 2024. The effect of the relief in respect of current expected credit losses as at March 31, 2024, is estimated at an additional future decrease of approximately 0.01%.

## 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 risk," 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).

## D.1. Credit quality of credit exposures

Table D-1: Credit risk indicators

	As at							
	March 31, 2024				December 31, 2023			
	Commercial	Private individuals – housing loans	Private individuals – other	Total	Commercial	Private individuals – housing loans	Private individuals – other	Total
<b>Analysis of quality of credit to the public</b>								
Non-accruing credit as a percentage of the balance of credit to the public	<b>1.16%</b>	<b>0.60%</b>	<b>0.66%</b>	<b>0.94%</b>	1.22%	0.57%	0.64%	0.97%
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	<b>1.27%</b>	<b>0.60%</b>	<b>0.81%</b>	<b>1.02%</b>	1.35%	0.57%	0.89%	1.06%
Problematic credit as a percentage of the balance of credit to the public	<b>2.98%</b>	<b>0.60%</b>	<b>1.80%</b>	<b>2.13%</b>	2.80%	0.57%	1.99%	2.02%
Credit not at credit execution rating as a percentage of the balance of credit to the public	<b>6.50%</b>	<b>1.12%</b>	<b>9.74%</b>	<b>5.07%</b>	6.85%	1.11%	10.19%	5.31%
<b>Analysis of provision for credit losses in the reported period</b>								
Provision for credit losses as a percentage of the average balance of credit to the public	<b>(0.19%)</b>	<b>(0.13%)</b>	<b>1.70%</b>	<b>(0.01%)</b>	0.58%	0.09%	1.09%	0.47%
Net charge-offs as a percentage of the average balance of credit to the public	<b>0.01%</b>	-	<b>1.03%</b>	<b>0.09%</b>	0.07%	0.01%	0.56%	0.09%
<b>Analysis of allowance for credit losses in respect of credit to the public</b>								
Total allowance for credit losses* as a percentage of credit to the public	<b>2.42%</b>	<b>0.44%</b>	<b>3.33%</b>	<b>1.87%</b>	2.50%	0.48%	3.21%	1.92%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public	<b>2.08%</b>	<b>0.41%</b>	<b>3.23%</b>	<b>1.65%</b>	2.14%	0.45%	3.11%	1.69%
Allowance for credit losses as a percentage of the balance of non-accruing credit to the public	<b>179.6%</b>	<b>68.2%</b>	<b>491.3%</b>	<b>175.4%</b>	175.3%	78.5%	486.5%	174.3%
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	<b>163.7%</b>	<b>68.2%</b>	<b>399.7%</b>	<b>161.6%</b>	159.1%	78.5%	349.5%	158.7%
Ratio of allowance for credit losses to net charge-offs	<b>186.6</b>	-	<b>3.2</b>	<b>17.8</b>	29.9	74.1	5.5	18.4

\* 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**

In general, most credit quality indicators for the overall portfolio show improvement in the first quarter of 2024, such as non-accruing credit as a percentage of the balance of credit to the public, credit not at credit execution rating as a percentage of the balance of credit to the public, and the provision for credit losses as a percentage of the balance of credit. However, the indicator of problematic credit as a percentage of the balance of credit to the public worsened, mostly as a result of the commercial portfolio. Despite the worsening of problematic credit as a percentage of the balance of credit to the public, the percentage of credit at credit execution rating improved. In addition, the overall allowance for credit losses as a percentage of credit decreased, influenced by an improvement in macroeconomic forecasts, which led to a certain decrease in the collective allowance.

In the "private individuals – other" segment, net charge-offs as a percentage of the average balance of credit increased in comparison to the average rate in 2023, and the overall allowance for credit losses as a percentage of credit increased compared with the rate on December 31, 2023. The increase in the percentage of charge-offs was influenced by a gradual increase in risk during 2023, due to the increases in the interest rate and the effects of the war beginning in the fourth quarter. In 2024, this trend was more moderate in the figures for the first quarter of 2024.

### **Effects of the Swords of Iron War on the collective allowance**

The Swords of Iron War is expected to cause damage to the economic environment, which is likely to lead to an increase in the level of credit risk. There is uncertainty regarding the development and scope of the fighting and the extent of its effect on the sectors of the economy. In calculating the collective allowance, the Bank weighs in the results of three economic scenarios describing different trajectories of economic and financial developments in the short and medium term, and their impacts on credit risk.

In view of the war, these scenarios included differing assumptions regarding the duration and intensity of the war, as was also the case in the preceding quarter. Relative to the scenarios used in the preceding quarter, the current scenarios describe a slightly better economic starting point, in view of the expectation of high growth data in the first quarter, and a rapid decrease in the number of people temporarily absent from the labor market (the broad unemployment rate). However, the continuation of the fighting, including the escalating security situation on additional fronts, serves to increase uncertainty, which is reflected in a more severe negative scenario. The overall collective allowance reflects these effects and stands at approximately NIS 7.0 billion on March 31, 2024, compared with approximately NIS 7.1 billion on December 31, 2023. The collective allowance before the effect of the war, as at June 30, 2023, was approximately NIS 6.2 billion.

For the purpose of analysis of the sensitivity of the collective allowance to different assumptions, the calculation of the collective allowance in respect of the portfolio in Israel based solely on the pessimistic forecast would lead to an increase of approximately NIS 0.9 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 approximately NIS 0.7 billion in the collective allowance. This range indicates the level of uncertainty with regard to the effect of the state of war on the credit portfolio of the Bank. It is emphasized that the pessimistic forecast does not constitute a stress scenario.

Table D-2: Credit quality of credit exposures

	March 31, 2024			
	Gross balances		Allowances for credit losses or impairment	Net balances
	Non-accruing or past due by 90 days or more	Others		
	NIS millions			
Debts, excluding bonds	<b>4,271</b>	<b>424,686</b>	<b>6,926</b>	<b>422,031</b>
Bonds	-	<b>114,801</b>	<b>12</b>	<b>114,789</b>
Off-balance sheet exposures	<b>695</b>	<b>223,199</b>	<b>940</b>	<b>222,954</b>
<b>Total</b>	<b>4,966</b>	<b>762,686</b>	<b>7,878</b>	<b>759,774</b>

	March 31, 2023			
	Gross balances		Allowances for credit losses or impairment	Net balances
	Non-accruing or past due by 90 days or more	Others		
	NIS millions			
Debts, excluding bonds	3,528	412,751	5,638	410,641
Bonds	-	133,396	15	133,381
Off-balance sheet exposures	748	208,284	1,011	208,021
<b>Total</b>	<b>4,276</b>	<b>754,431</b>	<b>6,664</b>	<b>752,043</b>

	December 31, 2023			
	Gross balances		Allowances for credit losses or impairment	Net balances
	Non-accruing or past due by 90 days or more	Others		
	NIS millions			
Debts, excluding bonds	4,408	421,156	7,019	418,545
Bonds	-	122,703	14	122,689
Off-balance sheet exposures	669	218,278	956	217,991
<b>Total</b>	<b>5,077</b>	<b>762,137</b>	<b>7,989</b>	<b>759,225</b>

For further details, see [Table 3-2: 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-3: Details of exposures by economic sector in Israel

	March 31, 2024, and the three-month period then ended									
	Total credit risk <sup>(1)</sup>			Debts <sup>(2)</sup> and off-balance sheet credit risk (excluding derivatives) <sup>(3)</sup>						
	Total	Credit execution rating <sup>(5)</sup>	Problematic <sup>(6)</sup>	Total	Of which: debts <sup>(2)</sup>	Problematic <sup>(6)</sup>	Non-accruing	Credit losses <sup>(4)</sup>		
								Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
NIS millions										
<b>In respect of borrower activity in Israel</b>										
Public – commercial										
Agriculture	3,145	2,886	167	3,144	2,606	167	3	(1)	-	82
Mining and quarrying	1,396	959	432	1,384	830	432	421	4	-	188
Industry	30,940	29,864	472	30,333	15,436	472	144	(16)	3	373
Construction and real estate – construction <sup>(7)</sup>	108,740	106,067	1,950	108,494	53,340	1,950	856	57	-	1,170
Construction and real estate – real-estate activities	42,831	41,810	700	42,567	33,654	700	131	(70)	5	937
Electricity and water supply	15,282	14,804	337	14,732	9,221	337	43	(24)	-	373
Commerce	40,513	38,804	665	40,284	28,858	665	385	6	8	531
Hotels, hospitality, and food services	11,842	11,104	510	11,797	10,051	510	409	(36)	-	399
Transportation and storage	12,561	11,810	384	12,471	8,865	383	92	6	7	382
Information and communications	8,052	7,133	113	7,988	5,543	113	100	(24)	(23)	113
Financial services	56,450	56,265	13	41,111	30,765	13	6	(41)	(1)	178
Other business services	16,856	15,848	206	16,830	10,877	206	97	23	7	292
Public and community services	9,817	9,168	388	9,799	7,047	388	365	(3)	3	310
Total commercial <sup>(8)</sup>	358,425	346,522	6,337	340,934	217,093	6,336	3,052	(119)	9	5,328
Private individuals – housing loans	139,332	137,865	786	139,332	131,678	786	786	(44)	-	578
Private individuals – other	56,889	53,291	633	56,881	34,986	633	232	147	90	1,169
Total public – activity in Israel	554,646	537,678	7,756	537,147	383,757	7,755	4,070	(16)	99	7,075
Banks in Israel <sup>(9)</sup>	1,060	1,060	-	898	220	-	-	1	-	3
Israeli government	83,724	83,724	-	1,005	1,001	-	-	-	-	-
Total activity in Israel	639,430	622,462	7,756	539,050	384,978	7,755	4,070	(15)	99	7,078

(1) Balance sheet credit risk and off-balance sheet credit risk,<sup>(3)</sup> including in respect of derivative instruments. Includes debts,<sup>(2)</sup> 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 384,978; 82,370; 719; 2,008; and 169,355 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 665 million and off-balance sheet credit risk in the amount of approximately NIS 879 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 118 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, 2023, and the year then ended									
	Total credit risk <sup>(1)</sup>			Debts <sup>(2)</sup> and off-balance sheet credit risk (excluding derivatives) <sup>(3)</sup>						
	Total	Credit execution rating <sup>(5)</sup>	Problematic <sup>(4)</sup>	Total	Of which: debts <sup>(2)</sup>	Problematic <sup>(4)</sup>	Non-accruing	Credit losses <sup>(4)</sup>		
Provision (income) for credit losses								Net charge-offs	Allowance for credit losses	
NIS millions										
<b>In respect of borrower activity in Israel</b>										
Public – commercial										
Agriculture	3,225	2,951	159	3,219	2,648	159	3	29	(7)	83
Mining and quarrying	1,369	931	432	1,367	861	432	421	1	-	184
Industry	31,673	30,518	665	30,999	15,438	665	196	54	(3)	389
Construction and real estate – construction <sup>(7)</sup>	106,772	103,852	2,136	106,519	51,896	2,136	936	300	22	1,113
Construction and real estate – real-estate activities	42,209	41,097	664	41,922	34,064	664	58	362	(18)	1,014
Electricity and water supply	15,525	15,151	226	14,993	9,469	226	44	(59)	52	395
Commerce	39,221	37,454	684	38,922	29,224	684	397	246	40	533
Hotels, hospitality, and food services	11,851	10,963	522	11,795	10,095	522	417	264	16	435
Transportation and storage	12,488	11,674	428	12,402	8,809	427	92	49	20	384
Information and communications	7,914	7,104	134	7,826	5,277	134	123	(26)	(4)	115
Financial services	54,691	54,505	14	40,938	30,945	14	6	42	5	219
Other business services	16,558	15,491	175	16,514	10,589	175	96	69	40	275
Public and community services	9,684	9,017	397	9,667	7,012	397	366	83	16	318
Total commercial <sup>(8)</sup>	353,180	340,708	6,636	337,083	216,327	6,635	3,155	1,414	179	5,457
Private individuals – housing loans	137,284	135,831	749	137,284	130,922	749	749	117	8	622
Private individuals – other	56,460	52,752	691	56,453	34,589	691	223	376	193	1,111
Total public – activity in Israel	546,924	529,291	8,076	530,820	381,838	8,075	4,127	1,907	380	7,190
Banks in Israel <sup>(9)</sup>	1,111	1,111	-	865	188	-	-	1	-	2
Israeli government	86,620	86,620	-	1,598	1,594	-	-	-	-	-
Total activity in Israel	634,655	617,022	8,076	533,283	383,620	8,075	4,127	1,908	380	7,192

- (1) Balance sheet credit risk and off-balance sheet credit risk,<sup>(3)</sup> including in respect of derivative instruments. Includes debts,<sup>(2)</sup> 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 383,620; 84,776; 636; 1,765; and 163,858 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 599 million and off-balance sheet credit risk in the amount of approximately NIS 530 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 87 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)**

	March 31, 2024, and the three-month period then ended									
	Total credit risk <sup>(1)</sup>			Debts <sup>(2)</sup> and off-balance sheet credit risk (excluding derivatives) <sup>(3)</sup>						
	Total	Credit execution rating <sup>(5)</sup>	Problematic <sup>(6)</sup>	Total	Of which: debts <sup>(2)</sup>	Problematic <sup>(6)</sup>	Non-accruing	Credit losses <sup>(4)</sup>		
								Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
NIS millions										
<b>In respect of borrower activity overseas</b>										
Public – commercial										
Agriculture	183	183	-	183	183	-	-	-	-	-
Mining and quarrying	757	757	-	435	159	-	-	-	-	6
Industry	3,335	3,293	42	2,566	1,343	42	-	20	(2)	35
Construction and real estate	16,583	15,402	1,149	16,502	10,542	1,148	299	(209)	-	321
Electricity and water supply	2,119	1,708	372	1,697	794	372	-	19	-	27
Commerce	2,957	2,824	134	2,957	2,429	134	-	21	-	44
Hotels, food services, and hospitality	4,711	4,583	129	4,711	3,397	129	129	(25)	-	70
Transportation and storage	928	894	34	893	754	34	-	3	-	18
Information and communications	3,002	2,778	223	2,845	2,348	223	12	115	-	131
Total financial services	15,355	15,353	-	4,101	3,194	-	-	5	-	19
Other business services	1,596	1,070	526	1,590	1,124	526	110	35	-	56
Public services	3,650	3,533	117	3,501	3,097	117	-	16	-	38
Total commercial	55,176	52,378	2,726	41,981	29,364	2,725	550	-	(2)	765
Private individuals –										
housing loans	684	664	11	684	661	11	11	-	-	6
Private individuals – other	266	260	-	266	100	-	-	1	-	1
Total public – activity overseas	56,126	53,302	2,737	42,931	30,125	2,736	561	1	(2)	772
Banks overseas <sup>(7)</sup>	23,765	23,764	-	12,636	12,179	-	-	-	-	13
Governments overseas	23,681	23,642	-	1,897	1,675	-	-	-	-	15
Total activity overseas	103,572	100,708	2,737	57,464	43,979	2,736	561	1	(2)	800
Total in Israel and overseas	743,002	723,170	10,493	596,514	428,957	10,491	4,631	(14)	97	7,878

(1) Balance sheet credit risk and off-balance sheet credit risk,<sup>(3)</sup> including in respect of derivative instruments. Includes debts,<sup>(2)</sup> 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 43,979; 32,431; 1,691; 493; and 24,978 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, 2023, and the year then ended									
	Total credit risk <sup>(1)</sup>			Debts <sup>(2)</sup> and off-balance sheet credit risk (excluding derivatives) <sup>(3)</sup>						
	Total	Credit execution rating <sup>(5)</sup>	Problematic <sup>(6)</sup>	Total	Of which: debts <sup>(2)</sup>	Problematic <sup>(6)</sup>	Non-accruing	Credit losses <sup>(4)</sup>		
								Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
NIS millions										
<b>In respect of borrower activity overseas</b>										
Public – commercial										
Agriculture	179	179	-	179	179	-	-	-	-	-
Mining and quarrying	838	837	-	395	123	-	-	(8)	-	6
Industry	3,746	3,676	44	2,582	1,364	44	-	(8)	6	13
Construction and real estate	15,423	14,228	996	15,363	9,974	995	298	4	(1)	531
Electricity and water supply	1,703	1,663	-	1,286	458	-	-	3	-	7
Commerce	3,179	3,090	60	2,926	2,243	60	-	(14)	-	22
Hotels, food services, and hospitality	4,381	4,254	127	4,381	3,275	127	127	(4)	-	97
Transportation and storage	1,155	1,122	33	837	724	33	-	1	-	15
Information and communications	3,138	3,080	59	2,702	2,196	59	13	(1)	-	16
Total financial services	15,005	15,004	-	3,327	2,378	-	-	(7)	(6)	14
Other business services	1,397	1,203	193	1,393	951	193	108	5	-	20
Public services	3,512	3,477	33	3,362	2,901	33	-	1	-	21
Total commercial	53,656	51,813	1,545	38,733	26,766	1,544	546	(28)	(1)	762
Private individuals –										
housing loans	669	652	8	669	641	8	8	-	-	6
Private individuals – other	261	255	1	261	95	1	-	3	2	1
Total public – activity overseas	54,586	52,720	1,554	39,663	27,502	1,553	554	(25)	1	769
Banks overseas <sup>(7)</sup>	26,017	26,000	-	13,380	12,896	-	-	3	-	13
Governments overseas	27,218	27,162	-	1,577	1,546	-	-	(7)	-	15
Total activity overseas	107,821	105,882	1,554	54,620	41,944	1,553	554	(29)	1	797
Total in Israel and overseas	742,476	722,904	9,630	587,903	425,564	9,628	4,681	1,879	381	7,989

(1) Balance sheet credit risk and off-balance sheet credit risk,<sup>(3)</sup> including in respect of derivative instruments. Includes debts,<sup>(2)</sup> 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 41,944; 37,927; 4,087; 446; and 23,417 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.

## D.2.b. Credit exposure to foreign financial institutions

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

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

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

**Table D-4: Exposure of the Bank Group to foreign financial institutions<sup>(1)</sup>**

	March 31, 2024			December 31, 2023		
	Balance sheet credit risk <sup>(2)</sup>	Present off-balance sheet credit risk <sup>(3)</sup>	Total present credit risk	Balance sheet credit risk <sup>(2)</sup>	Present off-balance sheet credit risk <sup>(3)</sup>	Total present credit risk
NIS millions						
<b>External credit rating<sup>(4)</sup></b>						
AAA to AA-	<b>5,621</b>	<b>10,737</b>	<b>16,358</b>	4,695	9,794	14,489
A+ to A-	<b>10,286</b>	<b>8,528</b>	<b>18,814</b>	9,596	9,769	19,365
BBB+ to BBB-	<b>340</b>	<b>17</b>	<b>357</b>	80	32	112
BB+ to B-	<b>2</b>	<b>7</b>	<b>9</b>	3	10	13
Lower than B-	-	-	-	-	-	-
Unrated	<b>78</b>	<b>22</b>	<b>100</b>	38	11	49
Total present credit exposures to foreign financial institutions	<b>16,327</b>	<b>19,311</b>	<b>35,638</b>	14,412	19,616	34,028

(1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, clearing houses, institutional entities, and entities controlled by such entities, but do not include credit exposure to foreign financial institutions backed by government guarantees.

(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other balance sheet risk in respect of derivative instruments.

(3) Mainly guarantees and commitments to grant credit.

(4) According to the lowest of the long-term foreign-currency credit ratings assigned by one of the major rating agencies – S&P and Moody's.

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 35.6 billion on March 31, 2024, an increase of approximately NIS 1.6 billion, compared with approximately NIS 34.0 billion at the end of 2023. This increase mainly resulted from an increase of approximately NIS 1.9 billion in balance-sheet exposure, as a result of an increase in securities borrowed or sold under resale agreements. An offsetting effect of a decrease in the amount of approximately NIS 0.3 billion in off-balance sheet exposure was recorded, mainly due to a decrease in guarantees.

Approximately 98.7% 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: 54.2% in insurance companies (mainly due to the acquisition of insurance policies), 40.2% in banks and bank holding companies, and 5.6% in another financial institution.

The exposure of the Bank Group is to foreign financial institutions operating in Western European countries (58.5%), the United States (34.0%), and South and East Asian countries (7.5%).

### D.3. Additional information regarding exposures to credit risks

#### D.3.a. Construction and real estate

Activity in the real-estate sector improved in the first quarter of 2024, as reflected in an increase in the number of transactions, a slight decrease in the inventory of unsold homes, and a renewed increase in prices of homes. However, on the supply side, difficulties in progress on projects continue, due to labor shortages. According to data of the Central Bureau of Statistics, purchases of new homes rose considerably in January-March 2024, to a total of 10.4 thousand housing units, compared with 7.3 thousand units in the same period last year. Part of the increase resulted from transactions apparently delayed from the first months of the war.

The housing price survey by the Central Bureau of Statistics indicates a turnaround in prices of homes, which rose again in December 2023 to March 2024, by a cumulative 3.6%.

**Table D-5: Segmentation of credit risk in the construction and real-estate sectors, by principal area of activity**

	Balance as at March 31, 2024			Total credit risk
	Balance sheet credit risk	Off-balance sheet credit		
	Loans <sup>(1)</sup>	Unutilized credit facilities	Guarantees	
	NIS millions			
<b>Corporate Banking Division</b>				
Construction for commerce and services	<b>2,905</b>	<b>806</b>	<b>278</b>	<b>3,989</b>
Construction for industry	<b>127</b>	<b>38</b>	<b>55</b>	<b>220</b>
Residential construction	<b>35,710</b>	<b>18,990</b>	<sup>(1)</sup> <b>18,633</b>	<b>73,333</b>
Yield-generating properties	<b>29,453</b>	<b>7,538</b>	<b>975</b>	<b>37,966</b>
Other	<b>10,698</b>	<b>9,701</b>	<b>4,791</b>	<b>25,190</b>
Corporate Banking Division total	<b>78,893</b>	<b>37,073</b>	<b>24,732</b>	<b>140,698</b>
Retail Banking Division	<b>8,334</b>	<b>1,891</b>	<b>648</b>	<b>10,873</b>
Total activity in Israel	<b>87,227</b>	<b>38,964</b>	<b>25,380</b>	<b>151,571</b>



**Table D-5: Segmentation of credit risk in the construction and real-estate sectors, by principal area of activity (continued)**

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

(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 March 31, 2024](#).

Overall credit risk in the construction and real-estate sectors in Israel totaled approximately NIS 152 billion as at March 31, 2024. The total balance of risk of credit to the public in the construction and real-estate sectors in Israel increased by approximately 1.7% over the course of the first quarter of 2024. Most of the exposure is at the Corporate Banking Division (mid-sized and large customers), at approximately 93% of total credit risk in the construction and real-estate sectors in Israel.

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

Table D-6: Analysis of credit quality in the construction and real-estate sectors

	Balance as at		Change
	March 31, 2024	December 31, 2023	
NIS millions			
<b>Credit risk at credit execution rating</b>			
Non-problematic credit risk	<b>147,877</b>	144,949	2.0%
<b>Credit risk not at credit execution rating</b>			
Problematic accruing	<b>1,663</b>	1,806	(8.0%)
Non-accruing	<b>987</b>	994	(0.7%)
Problematic credit risk not at execution rating	<b>2,650</b>	2,800	(5.4%)
Non-problematic credit risk not at execution rating	<b>1,044</b>	1,232	(15.3%)
Total credit risk not at credit execution rating	<b>3,694</b>	4,032	(8.4%)
Total	<b>151,571</b>	148,981	1.7%

Total credit risk not at credit execution rating decreased by 8.4% in the first quarter of 2024. Total credit risk not at credit execution rating as a percentage of total credit risk decreased from 2.71% at the end of 2023 to 2.44% as at March 31, 2024; problematic debt as a percentage of total credit risk decreased from 1.88% at the end of 2023 to 1.75% as at March 31, 2024; and non-accruing debt as a percentage of total credit risk decreased from 0.67% at the end of 2023 to 0.65% as at March 31, 2024.

Table D-7: Credit risk in the real-estate sector at the Corporate Banking Division in Israel, by financing rate (LTV) and absorption capacity<sup>(1)</sup>

	Balance as at March 31, 2024				
	Land	Real estate in construction processes <sup>(2)</sup>	Completed properties	Other	Total
	NIS millions				
<b>Financing rate<sup>(3)</sup></b>					
Up to 45%	<b>2,858</b>	-	<b>6,102</b>	-	<b>8,960</b>
Over 45% up to 65%	<b>6,729</b>	-	<b>10,609</b>	-	<b>17,338</b>
Over 65% up to 80%	<b>17,639</b>	-	<b>5,976</b>	-	<b>23,615</b>
Over 80%	<b>1,903</b>	-	<b>734</b>	-	<b>2,637</b>
<b>Absorption capacity<sup>(4)</sup></b>					
Up to 25%	-	<b>501</b>	-	-	<b>501</b>
Over 25% up to 50%	-	<b>14,871</b>	-	-	<b>14,871</b>
Over 50% up to 75%	-	<b>9,624</b>	-	-	<b>9,624</b>
Over 75%	-	<b>23,009</b>	-	-	<b>23,009</b>
Projects not yet started	-	<b>11,117</b>	-	-	<b>11,117</b>
<b>Other<sup>(5)</sup></b>					
	-	-	-	<b>29,026</b>	<b>29,026</b>
Total Corporate Banking Division credit risk	<b>29,129</b>	<b>59,122</b>	<b>23,421</b>	<b>29,026</b>	<b>140,698</b>

- (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-7: Credit risk in the real-estate sector at the Corporate Banking Division in Israel, by financing rate (LTV) and absorption capacity<sup>(1)</sup> (continued)**

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

- (1) Segmentation was performed according to an analysis of the source of repayment of each credit, as presented and approved during the underwriting process.
- (2) "Real estate in construction processes" includes 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.

As at March 31, 2024, credit for land with financing rates higher than 80% constitutes approximately 6.5% of the total balance of land at the Corporate Banking Division, compared with 7.1% in December 2023. Credit for completed properties with financing rates higher than 80% constitutes approximately 3.1% of the total balance of completed properties as at March 31, 2024, compared with 3.3% as at December 31, 2023. Credit with absorption capacity of up to 25% for real estate in construction processes constitutes approximately 0.85% of the total balance of real estate in construction processes at the Corporate Banking Division as at March 31, 2024, compared with 0.66% as at December 31, 2023. Slight worsening occurred in projects with absorption capacity of up to 25%; however, the percentage of total projects remains low.

### **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. The Bank uses land insurance policies that protect the Bank against credit losses in respect of the portfolio of loans granted to customers of the Corporate Banking Division of the Bank that are secured by a lien on land. In addition, insurance policies for Sale Law guarantees 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 10.A.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 2,107 million as at March 31, 2024, compared with a total of approximately NIS 2,127 million as at December 31, 2023. 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 March 31, 2024, is 2.42%, compared with 2.47% as at December 31, 2023, influenced by a certain improvement in the economic forecasts used to calculate the collective allowance.

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

**Table D-8: 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**

	March 31, 2024			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
	NIS millions			
<b>Economic sector of the borrower</b>				
Electricity supply	1	1,756	1,322	3,078
Construction and real estate – construction	6	5,991	4,210	10,201
Construction and real estate – real-estate activities	2	1,449	1,681	3,130
Construction and real estate – civil engineering	3	2,113	4,234	6,347
Information and communications	1	1,268	72	1,340
Financial services	13	10,853	19,397	30,250
Industry	3	1,105	4,452	5,557
<b>Total</b>	<b>29</b>	<b>24,535</b>	<b>35,368</b>	<b>59,903</b>
	December 31, 2023			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
	NIS millions			
<b>Economic sector of the borrower</b>				
Electricity supply	1	1,748	1,306	3,054
Construction and real estate – construction	7	6,905	4,784	11,689
Construction and real estate – real-estate activities	2	1,379	1,429	2,808
Construction and real estate – civil engineering	3	1,961	4,415	6,376
Information and communications	1	1,190	73	1,263
Financial services	14	13,560	17,780	31,340
Industry	3	1,256	4,735	5,991
Motor-vehicle trading	1	1,149	59	1,208
<b>Total</b>	<b>32</b>	<b>29,148</b>	<b>34,581</b>	<b>63,729</b>

### Credit risk in respect of exposure to borrower groups

As at March 31, 2024, there is one group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: "Directive 313"), exceeds 15% of the capital of the banking corporation (as defined in Directive 313).

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

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

**Table D-9: Credit risk balances<sup>(1)</sup> for each group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the banking corporation (as defined in Directive 313)**

	March 31, 2024						
	Balance sheet credit risk	Off-balance sheet credit risk	Of which: off-balance sheet credit risk in respect of derivative instruments <sup>(2)</sup>	Gross indebtedness <sup>(3)</sup>	Deductions <sup>(4)</sup>	Net indebtedness <sup>(1)</sup>	Percentage of regulatory capital
	NIS millions						%
Borrower group A	<b>2,759</b>	<b>5,349</b>	<b>3,994</b>	<b>8,704</b>	<b>477</b>	<b>8,227</b>	<b>15.63%</b>

(1) The data presented below represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313. These data are not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.

(2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.

(3) This amount includes third-party guarantees outside the group.

(4) Deductions permitted under Directive 313, mainly including deposits deposited at the Bank, bonds issued by the State of Israel, and deductible indemnity letters of the State of Israel or financial institutions.

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

Table D-10: Risks in the housing loan portfolio

	Balance as at		
	March 31, 2024	March 31, 2023	December 31, 2023
	NIS millions		
<b>Credit balances</b>			
Loans from Bank funds	<b>132,457</b>	129,168	131,650
Loans from Finance Ministry funds*	<b>858</b>	833	868
Grants from Finance Ministry funds*	<b>297</b>	277	297
<b>Total</b>	<b>133,612</b>	130,278	132,815
	For the three months ended		For the year ended
	March 31, 2024	March 31, 2023	December 31, 2023
	NIS millions		
<b>Execution of housing loans</b>			
Total loans from Bank funds	<b>3,590</b>	3,916	14,630
<b>Loans from Finance Ministry funds</b>			
Loans	<b>15</b>	11	61
Grants	<b>6</b>	6	32
Total from Finance Ministry funds	<b>21</b>	17	93
Total new loans	<b>3,611</b>	3,933	14,723
Old loans refinanced from Bank funds	<b>466</b>	217	1,374
<b>Total loans granted</b>	<b>4,077</b>	4,150	16,097

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

Table D-11: Development of amounts past due in housing loans and allowance for credit losses

	Recorded debt balance	Debt past due by 90 days or more or non-accruing	Allowance for credit losses in respect of housing loans	Rate of allowance for credit losses in respect of housing loans	Percentage of debt past due by 90 days or more or non-accruing
	NIS millions/percent				
<b>March 31, 2024</b>	<b>132,457</b>	<b>795</b>	<b>595</b>	<b>0.45%</b>	<b>0.60%</b>
December 31, 2023	131,650	755	632	0.48%	0.57%
December 31, 2022	128,177	581	519	0.40%	0.45%

As at March 31, 2024, the percentage of debt past due by 90 days or more or non-accruing increased, while the rate of the allowance for credit losses decreased, compared with the rate as at December 31, 2023, influenced by a certain improvement in the economic forecasts used to calculate the collective allowance.



**Table D-12: 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 %		
<b>March 31, 2024</b>	<b>34,777</b>	<b>26.2%</b>	<b>52,128</b>	<b>39.4%</b>	<b>15,137</b>	<b>11.4%</b>	<b>30,324</b>	<b>22.9%</b>	<b>91</b>	<b>0.1%</b>	<b>132,457</b>	<b>0.6%</b>
Dec. 31, 2023	34,441	26.1%	51,534	39.1%	14,954	11.4%	30,623	23.3%	98	0.1%	131,650	2.7%
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%

### **Risk quantification and measurement – housing credit portfolio**

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

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

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

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

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

**Table D-13: Developments in housing credit balances, last five quarters**

	2024	2023			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Balances at end of period	<b>132,457</b>	131,650	130,954	129,864	129,168
Change in balances	<b>0.6%</b>	0.5%	0.8%	0.5%	0.8%
Execution of new loans	<b>3,611</b>	3,344	3,887	3,559	3,933

The amount of new loans executed rose in the first quarter of 2024, and the balance of housing credit grew by 0.6%. The more moderate growth rate in balances in 2023 was influenced by the increases in the interest rate, the increase in inflation, and the expectations of a decrease in prices, which led to a significant decrease in the quantity of transactions. Following the outbreak of the Swords of Iron War, the number of transactions decreased further in the fourth quarter of 2023. Some degree of recovery was recorded in the first quarter of 2024, but the number of transactions remains low.

**Table D-14: Characteristics of housing credit granted by the Bank**

	For the three months ended				
	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
<b>Characteristics</b>					
Financing rate over 60%	<b>44.0%</b>	42.0%	42.3%	42.1%	41.3%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	<b>0.6%</b>	0.7%	0.9%	1.0%	1.1%
Percentage with floating rates	<b>54.6%</b>	54.5%	54.8%	55.7%	56.2%

Loans granted with financing rates greater than 60% and the percentage of floating-rate loans increased in the first quarter of 2024 in comparison to December 31, 2023, while the downward trend in the volume of loans granted with payment to income ratios greater than 40% continued.

The housing credit portfolio is characterized by a relatively low risk level and high collateral coverage. According to the estimates of the Bank, the economic environment, combined with the effects of the war, may be reflected in the future, leading to a decline in portfolio quality. The allowance as well as the allowance as a percentage of balances decreased this quarter, mainly influenced by macroeconomic forecasts. These effects are expressed in the collective allowance for credit losses, which reflects the Bank's estimates of expected credit losses throughout the lifetime of the transactions in the portfolio.

The weighted average financing rate (LTV) in the housing-loan portfolio of the Bank as at March 31, 2024, is approximately 46%, similar to the financing rate as at December 31, 2023 (based on the financing rate when the loan was granted). The effective rate is even lower, due to regular repayments since the credit was granted and an increase in the value of the pledged assets in respect of a decisive majority of the assets in the portfolio. For further information regarding initiatives of the Bank for customers aimed at coping with the increase in the interest rate and the effects of the war, see [the section "Housing loans" in the Corporate Governance Report](#).

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

Table D-15: Balance of credit to private individuals in Israel

	Balance as at		Change	
	March 31, 2024	December 31, 2023		
	NIS millions			
<b>Balance sheet</b>				
Negative balance in current accounts	<b>2,498</b>	2,582	(84)	(3.3%)
Loans <sup>(1)</sup>	<b>24,960</b>	24,588	372	1.5%
Of which: bullet and balloon loans	<b>58</b>	53	5	9.4%
Credit for purchases of motor vehicles <sup>(2)</sup>	<b>2,479</b>	2,696	(217)	(8.1%)
Debtors in respect of credit-card activity	<b>5,149</b>	4,818	331	6.9%
Total balance sheet credit risk	<b>35,086</b>	34,684	402	1.2%
<b>Off-balance sheet</b>				
Off-balance sheet credit risk	<b>22,061</b>	22,030	31	0.1%
Total credit risk	<b>57,147</b>	56,714	433	0.8%

(1) Excluding loans for purchases of motor vehicles.

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

The balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, increased by approximately 0.6% in the first quarter of 2024 in comparison to December 31, 2023. Total balance sheet credit risk increased by approximately 1.2% in this period, and total off-balance sheet credit risk increased by approximately 0.1%.

The Bank is monitoring the developments and examining their effects on the credit portfolio. As noted, the Bank cannot estimate the duration or developments of the war, and correspondingly the extent of damage in each of these areas. However, the risk level of borrowers employed in fields and areas likely to be hurt by the economic impacts of the war may increase.

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

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-16: Exposures of the Bank to leveraged financing, by economic sector of the borrower\***

	March 31, 2024			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
	NIS millions			
<b>Economic sector of the borrower</b>				
Construction and real estate – real-estate activities	1	546	-	546
Financial services and insurance services	2	952	-	952
Water supply and sewage services	1	267	-	267
<b>Total</b>	<b>4</b>	<b>1,765</b>	<b>-</b>	<b>1,765</b>
	December 31, 2023			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
	NIS millions			
<b>Economic sector of the borrower</b>				
Construction and real estate – construction	1	255	-	255
Construction and real estate – real-estate activities	1	545	-	545
Financial services and insurance services	2	955	-	955
Water supply and sewage services	1	272	-	272
<b>Total</b>	<b>5</b>	<b>2,027</b>	<b>-</b>	<b>2,027</b>

\* 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-17: Credit risk mitigation

	March 31, 2024								
	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									
Debts, excluding bonds	<b>366,311</b>	<b>55,720</b>	<b>32,859</b>	<b>24,428</b>	<b>16,840</b>	<b>31,292</b>	<b>16,019</b>	-	-
Bonds	<b>114,789</b>	-	-	-	-	-	-	-	-
<b>Total</b>	<b>481,100</b>	<b>55,720</b>	<b>32,859</b>	<b>24,428</b>	<b>16,840</b>	<b>31,292</b>	<b>16,019</b>	-	-
Of which: non-accruing or past due by 90 days or more	<b>4,142</b>	<b>129</b>	<b>8</b>	<b>129</b>	<b>8</b>	-	-	-	-
March 31, 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								
Debts, excluding bonds	343,220	67,421	44,046	35,160	27,619	32,261	16,427	-	-
Bonds	133,381	-	-	-	-	-	-	-	-
<b>Total</b>	<b>476,601</b>	<b>67,421</b>	<b>44,046</b>	<b>35,160</b>	<b>27,619</b>	<b>32,261</b>	<b>16,427</b>	-	-
Of which: non-accruing or past due by 90 days or more	9,457	124	6	124	6	-	-	-	-
December 31, 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								
Debts, excluding bonds	355,199	63,346	40,521	30,867	24,256	32,479	16,265	-	-
Bonds	122,689	-	-	-	-	-	-	-	-
<b>Total</b>	<b>477,888</b>	<b>63,346</b>	<b>40,521</b>	<b>30,867</b>	<b>24,256</b>	<b>32,479</b>	<b>16,265</b>	-	-
Of which: non-accruing or past due by 90 days or more	4,341	67	5	67	5	-	-	-	-

Table D-18: Standardized approach – exposures by asset type and risk weight<sup>(1)(2)</sup>

	March 31, 2024									
	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total amount of credit exposures (after CCF and after CRM)
NIS millions										
Sovereigns, central banks thereof, and national monetary authority	175,872	802	-	72	-	-	315	4	-	177,065
Public-sector entities (PSE) other than the central government	2,038	5,877	-	2	-	-	-	-	-	7,917
Banks (including multilateral development banks (MDB))	1,870	18,249	-	30	-	-	26	-	-	20,175
Securities companies	-	2,939	-	308	-	-	-	-	-	3,247
Corporations	-	12,406	-	9,776	-	-	156,037	3,717	-	181,936
Retail exposures to individuals	-	-	-	-	-	51,496	-	-	-	51,496
Loans to small businesses	-	-	-	-	-	9,365	20	-	-	9,385
Secured by a residential property	-	-	35,102	37,357	37,418	14,648	4,144	-	-	128,669
Secured by commercial real estate	-	-	-	-	-	-	80,750	-	-	80,750
Past-due loans	-	-	-	-	-	-	1,717	1,489	-	3,206
Other assets*	3,499	406	-	-	-	-	10,712	2,028	-	16,645
* Of which: in respect of shares	-	-	-	-	-	-	3,211	1,486	-	4,697
<b>Total</b>	<b>183,279</b>	<b>40,679</b>	<b>35,102</b>	<b>47,545</b>	<b>37,418</b>	<b>75,509</b>	<b>253,721</b>	<b>7,238</b>	<b>-</b>	<b>680,491</b>

(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.

**Table D-18: Standardized approach – exposures by asset type and risk weight<sup>(1)(2)</sup> (continued)**

	March 31, 2023									
	0%	20%	35%	50%	60%	75%	100%	150%	Other <sup>(3)</sup>	Total amount of credit exposures (after CCF and after CRM)
NIS millions										
Sovereigns, central banks thereof, and national monetary authority	191,428	650	-	28	-	-	103	85	-	192,294
Public-sector entities (PSE) other than the central government	2,159	5,218	-	-	-	-	-	-	-	7,377
Banks (including multilateral development banks (MDB))	1,943	15,874	-	93	-	-	32	-	-	17,942
Securities companies	-	2,064	-	-	-	-	-	-	-	2,064
Corporations	-	15,206	-	10,624	-	-	<sup>(4)</sup> 151,003	<sup>(4)</sup> 6,054	-	<sup>(4)</sup> 182,887
Retail exposures to individuals	-	-	-	-	-	51,770	22	-	-	51,792
Loans to small businesses	-	-	-	-	-	9,498	-	-	-	9,498
Secured by a residential property	-	-	34,853	37,566	35,031	14,207	3,307	-	-	124,964
Secured by commercial real estate	-	-	-	-	-	-	<sup>(4)</sup> 70,423	<sup>(4)</sup> -	-	<sup>(4)</sup> 70,423
Past-due loans	-	-	-	-	-	-	1,567	1,112	-	2,679
Other assets*	4,109	316	-	-	-	-	10,052	1,177	315	15,969
* Of which: in respect of shares	-	-	-	-	-	-	3,239	718	-	3,957
<b>Total</b>	<b>199,639</b>	<b>39,328</b>	<b>34,853</b>	<b>48,311</b>	<b>35,031</b>	<b>75,475</b>	<b>236,509</b>	<b>8,428</b>	<b>315</b>	<b>677,889</b>

(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.

(4) Reclassification of credit for the acquisition of land.



Table D-18: Standardized approach – exposures by asset type and risk weight<sup>(1)(2)</sup> (continued)

	December 31, 2023									
	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total amount of credit exposures (after CCF and after CRM)
NIS millions										
Sovereigns, central banks thereof, and national monetary authority	191,294	698	-	28	-	-	251	20	-	192,291
Public-sector entities (PSE) other than the central government	1,815	5,932	-	-	-	-	-	-	-	7,747
Banks (including multilateral development banks (MDB))	1,858	17,704	-	34	-	-	34	-	-	19,630
Securities companies	-	2,546	-	-	-	-	-	-	-	2,546
Corporations	-	13,958	-	10,526	-	-	<sup>(3)</sup> 153,264	<sup>(3)</sup> 3,826	-	<sup>(3)</sup> 181,574
Retail exposures to individuals	-	-	-	-	-	51,061	-	-	-	51,061
Loans to small businesses	-	-	-	-	-	9,199	19	-	-	9,218
Secured by a residential property	-	-	35,119	37,510	37,241	13,766	3,854	-	-	127,490
Secured by commercial real estate	-	-	-	-	-	-	<sup>(3)</sup> 77,943	<sup>(3)</sup> -	-	<sup>(3)</sup> 77,943
Past-due loans	-	-	-	-	-	-	1,668	1,617	-	3,285
Other assets*	3,823	418	-	-	-	-	10,190	1,959	-	16,390
* Of which: in respect of shares	-	-	-	-	-	-	3,002	1,431	-	4,433
<b>Total</b>	<b>198,790</b>	<b>41,256</b>	<b>35,119</b>	<b>48,098</b>	<b>37,241</b>	<b>74,026</b>	<b>247,223</b>	<b>7,422</b>	<b>-</b>	<b>689,175</b>

(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) Reclassification of credit for the acquisition of land.

## 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.

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

	March 31, 2024					March 31, 2023				
	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									
SA-CCR approach	<b>3,759</b>	<b>15,826</b>	<b>1.4</b>	<b>27,418</b>	<b>8,307</b>	4,378	12,974	1.4	24,293	8,410
Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	-	-	-	<b>280</b>	<b>56</b>	-	-	-	2,033	407
<b>Total</b>	<b>3,759</b>	<b>15,826</b>	<b>1.4</b>	<b>27,698</b>	<b>8,363</b>	4,378	12,974	1.4	26,326	8,817

	December 31, 2023				
	Replacement cost	Potential future exposure	Alpha used to calculate regulatory EAD	EAD after CRM	RWA
	NIS millions				
SA-CCR approach	3,574	14,580	1.4	25,415	8,596
Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	-	-	-	1,063	213
<b>Total</b>	3,574	14,580	1.4	26,478	8,809

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

	March 31, 2024		March 31, 2023		December 31, 2023	
	EAD after CRM	RWA	EAD after CRM	RWA	EAD after CRM	RWA
	NIS millions					
Total portfolios in respect of which CVA is calculated according to the standardized approach	<b>27,390</b>	<b>4,786</b>	24,224	4,572	25,391	4,560

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

	<b>March 31, 2024</b>				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	<b>54</b>	-	-	-	<b>54</b>
Public-sector entities (PSEs) other than the central government	-	<b>498</b>	-	-	<b>498</b>
Banks (including multilateral development banks (MDB))	-	<b>6,790</b>	<b>23</b>	-	<b>6,813</b>
Securities companies	-	<b>16,783</b>	-	-	<b>16,783</b>
Corporations	-	-	<b>28</b>	<b>2,979</b>	<b>3,007</b>
Supervisory retail portfolios	-	-	-	<b>46</b>	<b>46</b>
Loans to small businesses	-	-	-	<b>14</b>	<b>14</b>
Secured by commercial real estate	-	-	-	<b>483</b>	<b>483</b>
Other assets	-	-	-	-	-
<b>Total</b>	<b>54</b>	<b>24,071</b>	<b>51</b>	<b>3,522</b>	<b>27,698</b>

	March 31, 2023				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	53	-	-	-	53
Public-sector entities (PSEs) other than the central government	-	576	-	-	576
Banks (including multilateral development banks (MDB))	-	5,655	19	-	5,674
Securities companies	-	15,559	-	-	15,559
Corporations	-	-	31	3,885	3,916
Supervisory retail portfolios	-	-	-	55	55
Loans to small businesses	-	-	-	38	38
Secured by commercial real estate	-	-	-	455	455
Other assets	-	-	-	-	-
<b>Total</b>	<b>53</b>	<b>21,790</b>	<b>50</b>	<b>4,433</b>	<b>26,326</b>

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

	December 31, 2023				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	83	-	-	-	83
Public-sector entities (PSEs) other than the central government	-	501	-	-	501
Banks (including multilateral development banks (MDB))	-	7,328	21	-	7,349
Securities companies	-	14,119	-	-	14,119
Corporations	-	-	36	3,838	3,874
Supervisory retail portfolios	-	-	-	41	41
Loans to small businesses	-	-	-	6	6
Secured by commercial real estate	-	-	-	505	505
Other assets	-	-	-	-	-
<b>Total</b>	<b>83</b>	<b>21,948</b>	<b>57</b>	<b>4,390</b>	<b>26,478</b>

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

	March 31, 2024					
	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 <sup>(1)</sup>	Not disconnected	Disconnected <sup>(1)</sup>	Not disconnected		
NIS millions						
Cash – local currency	-	<b>3,184</b>	-	<b>936</b>	-	-
Cash – other currencies	-	<b>4,666</b>	-	<b>3,137</b>	<b>1,373</b>	<b>1,695</b>
Local sovereign debt	-	-	<b>1,505</b>	-	-	<b>1,265</b>
Other sovereign debt	-	<b>3,619</b>	<b>397</b>	<b>1,063</b>	<b>365</b>	<b>236</b>
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	<b>3,236</b>	<b>3,827</b>	-	<b>1,261</b>	<b>83</b>
Shares	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>14,705</b>	<b>5,729</b>	<b>5,136</b>	<b>2,999</b>	<b>3,279</b>

(1) Disconnected collateral – collateral provided by the Bank in a separate account, disconnected from insolvency risk, which it is assumed will be returned to the banking corporation in the event of insolvency of the counterparty.

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

	March 31, 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 <sup>(1)</sup>	Not disconnected	Disconnected <sup>(1)</sup>	Not disconnected		
NIS millions						
Cash – local currency	-	768	-	1,532	-	-
Cash – other currencies	-	4,900	-	2,035	14,362	2,217
Local sovereign debt	-	788	899	-	-	10,893
Other sovereign debt	-	1,501	256	-	1,160	3,168
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	323	5,197	-	809	2,086
Shares	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	-	<b>8,280</b>	<b>6,352</b>	<b>3,567</b>	<b>16,331</b>	<b>18,364</b>

	December 31, 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 <sup>(1)</sup>	Not disconnected	Disconnected <sup>(1)</sup>	Not disconnected		
NIS millions						
Cash – local currency	-	2,664	-	843	-	-
Cash – other currencies	-	6,414	-	4,704	6,302	2,630
Local sovereign debt	-	-	128	-	-	5,577
Other sovereign debt	-	4,163	472	792	1,599	1,626
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	2,127	4,516	-	869	-
Shares	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	-	<b>15,368</b>	<b>5,116</b>	<b>6,339</b>	<b>8,770</b>	<b>9,833</b>

(1) Disconnected collateral – collateral provided by the Bank in a separate account, disconnected from insolvency risk, which it is assumed will be returned to the banking corporation in the event of insolvency of the counterparty.

The Bank has no exposures to credit derivatives as at March 31, 2024.

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, 2023](#).

## 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 NIS interest rates (in the linked and unlinked segments), USD interest rates, inflation, the NIS/USD exchange rate, and spreads between different interest-rate curves.

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, 2023](#).

### 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 a 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)

	March 31, 2024	Average in Q1 2024	December 31, 2023	Average in 2023
			NIS millions	
Total trading in dealing rooms	30	42	33	45

**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**

	<b>March 31, 2024</b>		December 31, 2023	
	NIS millions			
	10% increase	10% decrease	10% increase	10% decrease
USD	<b>(124)</b>	<b>146</b>	(131)	111
EUR	<b>8</b>	<b>(8)</b>	(2)	2
	3% increase	3% decrease	3% increase	3% decrease
CPI	<b>885</b>	<b>(913)</b>	879	(899)

The table above presents an analysis of the sensitivity of the economic value of the Bank to changes in exchange rates, based on revaluation of all balance sheet and off-balance sheet instruments in the risk-management system, using prevalent models for revaluation of each instrument and using representative rates as the baseline exchange rate. For the purposes of the calculation, the portfolio is revalued at an exchange rate reflecting an increase/decrease at the presented rate, with no additional assumptions. Changes in exchange rates also have some effect on total risk-adjusted assets, and correspondingly on capital ratios. It is further noted that changes in exchange rates affect the value of non-monetary items (such as securities) denominated in foreign currency, which were not taken into account in the sensitivity analysis. Sensitivity to the consumer price index is calculated according to the exposure of the Bank to the index, as detailed in Note 14 to the Condensed Financial Statements, plus the effect of the CPI floor on the expected accounting profit.

**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.

	<b>March 31, 2024</b>	March 31, 2023	December 31, 2023
Risk-adjusted assets in NIS millions			
<b>Direct products</b>			
Interest-rate risk (general and specific)	<b>4,487</b>	3,762	3,137
Share position risk (general and specific)	-	-	-
Exchange-rate risk	<b>213</b>	788	375
Commodity risk	-	-	-
<b>Options</b>			
Simplified approach	-	-	-
Delta-plus approach	<b>649</b>	630	733
Scenario approach	-	-	-
Securitization	-	-	-
<b>Total</b>	<b>5,349</b>	5,180	4,245

## **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**

	March 31, 2024					December 31, 2023				
	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**	<b>451,855</b>	<b>62,809</b>	<b>89,377</b>	<b>15,127</b>	<b>619,168</b>	458,619	63,349	96,773	16,136	634,877
Other amounts receivable in respect of derivative, hybrid, and off-balance sheet financial instruments	<b>730,017</b>	<b>16,879</b>	<b>750,836</b>	<b>472,442</b>	<b>1,970,174</b>	662,161	17,920	683,691	162,671	1,526,443
Financial liabilities**	<b>405,787</b>	<b>23,526</b>	<b>132,265</b>	<b>17,664</b>	<b>579,242</b>	410,223	25,805	141,370	16,733	594,131
Other amounts payable in respect of derivative, hybrid, and off-balance sheet financial instruments	<b>767,818</b>	<b>21,067</b>	<b>709,528</b>	<b>470,354</b>	<b>1,968,767</b>	702,072	20,761	640,359	162,259	1,525,451
Net fair value of financial instruments	<b>8,267</b>	<b>35,095</b>	<b>(1,580)</b>	<b>(449)</b>	<b>41,333</b>	8,485	34,703	(1,265)	(185)	41,738
Effect of employee benefit liabilities	-	<b>(3,870)</b>	-	-	<b>(3,870)</b>	-	(3,896)	-	-	(3,896)
Effect of spreading over periods of on-demand deposits	<b>13,071</b>	-	<b>3,206</b>	<b>728</b>	<b>17,005</b>	12,336	-	3,019	702	16,057
Adjusted net fair value*	<b>21,338</b>	<b>31,225</b>	<b>1,626</b>	<b>279</b>	<b>54,468</b>	20,821	30,807	1,754	517	53,899
Of which: banking book	<b>21,213</b>	<b>30,888</b>	<b>1,671</b>	<b>257</b>	<b>54,029</b>	21,285	30,040	2,069	528	53,922

\* 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.

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

	March 31, 2024					December 31, 2023				
	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										
<b>Parallel changes</b>										
1% parallel increase	<b>(138)</b>	<b>(1,107)</b>	<b>(280)</b>	<b>59</b>	<b>(1,466)</b>	76	(1,028)	(196)	43	(1,105)
Of which: banking book	<b>(195)</b>	<b>(1,075)</b>	<b>(278)</b>	<b>60</b>	<b>(1,488)</b>	39	(991)	(200)	46	(1,106)
1% parallel decrease	<b>280</b>	<b>1,188</b>	<b>288</b>	<b>(66)</b>	<b>1,690</b>	(140)	1,100	201	(56)	1,105
Of which: banking book	<b>325</b>	<b>1,155</b>	<b>285</b>	<b>(69)</b>	<b>1,696</b>	(94)	1,061	204	(59)	1,112
<b>Non-parallel changes</b>										
Steepening <sup>(1)</sup>	<b>(586)</b>	<b>(205)</b>	<b>(63)</b>	<b>36</b>	<b>(818)</b>	(525)	(180)	(40)	33	(712)
Of which: banking book	<b>(552)</b>	<b>(206)</b>	<b>(67)</b>	<b>35</b>	<b>(790)</b>	(534)	(174)	(37)	32	(713)
Flattening <sup>(2)</sup>	<b>611</b>	<b>(21)</b>	<b>(14)</b>	<b>(27)</b>	<b>549</b>	563	(29)	(27)	(32)	475
Of which: banking book	<b>564</b>	<b>(13)</b>	<b>(10)</b>	<b>(28)</b>	<b>513</b>	559	(27)	(32)	(31)	469
Increase in short-term interest rate	<b>457</b>	<b>(492)</b>	<b>(152)</b>	<b>-</b>	<b>(187)</b>	576	(465)	(138)	(10)	(37)
Of which: banking book	<b>394</b>	<b>(472)</b>	<b>(150)</b>	<b>-</b>	<b>(228)</b>	552	(448)	(144)	(8)	(48)
Decrease in short-term interest rate	<b>(469)</b>	<b>495</b>	<b>151</b>	<b>(3)</b>	<b>174</b>	(616)	468	141	1	(6)
Of which: banking book	<b>(400)</b>	<b>474</b>	<b>148</b>	<b>(5)</b>	<b>217</b>	(644)	450	146	(1)	(49)

\* 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)**

	March 31, 2024			December 31, 2023		
	Unlinked NIS	CPI-linked NIS	Foreign currency	Unlinked NIS	CPI-linked NIS	Foreign currency
	NIS millions					
<b>Parallel changes</b>						
1% parallel increase	<b>(578)</b>	<b>(1,143)</b>	<b>(248)</b>	(329)	(1,088)	(177)
1% parallel decrease	<b>741</b>	<b>1,254</b>	<b>253</b>	461	1,193	177

The difference between economic value sensitivity and fair value sensitivity as at March 31, 2024, mainly stems from the use of different discount curves, as described above, the effect of which is estimated at approximately NIS 0.3 billion in the unlinked segment and approximately NIS 0.2 billion in the CPI-linked segment.

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

	March 31, 2024			December 31, 2023		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
1% parallel increase	<b>(100)</b>	<b>100</b>	-	51	82	133
Of which: banking book	<b>(100)</b>	<b>79</b>	<b>(21)</b>	51	71	122
1% parallel decrease	<b>(665)</b>	<b>(92)</b>	<b>(757)</b>	(917)	(104)	(1,021)
Of which: banking book	<b>(665)</b>	<b>(85)</b>	<b>(750)</b>	(917)	(82)	(999)

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. The decrease in income sensitivity mostly resulted from reduced deposits with the Bank of Israel and the extension of the bond portfolio. The sensitivity of income to an increase in the interest rate is approximately zero, as the positive effects of an increase in the interest rate are offset by the expected transition of current accounts to deposits in this scenario.

In January 2024, the Bank of Israel reduced the interest rate by 0.25%, while interest-rate curves reflected expectations of an additional reduction during the year. In February 2024, Moody's downgraded its credit rating for the State of Israel to A2. After the balance-sheet date, S&P downgraded its rating for the state to A+. The ratings of the banks are affected by the country rating; accordingly, the rating of the Bank was downgraded. At the time of the downgrades, there was no material effect on shekel interest-rate curves, exchange rates, or the credit spread of the state, as the rating downgrades appear to have already been priced in by the markets. For details of the effect of the change in the interest rate on the economic value and income of the Bank, see the tables above. For the potential effect of additional rating downgrades, see [the section "Impacts of the Swords of Iron War," above](#). The Bank is monitoring the developments in credit and deposits and the changes in sensitivities of value and income in the different scenarios, and acting as necessary.

**Table F-8: Effect of scenarios of changes in interest rates on shareholders' equity (net after tax)**

	<b>March 31, 2024</b>	December 31, 2023
	NIS millions	
1% parallel increase	<b>(880)</b>	(723)
1% parallel decrease	<b>897</b>	704

### **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.

## **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 March 31, 2024	
	Total unweighted value*	Total weighted value**
	NIS millions/percent	
<b>Total high-quality liquid assets</b>		
Total high-quality liquid assets (HQLA)		<b>171,739</b>
<b>Cash outflows</b>		
Retail deposits from individuals and from small business customers, of which:	<b>274,070</b>	<b>18,384</b>
Stable deposits	<b>73,803</b>	<b>3,690</b>
Less stable deposits	<b>105,295</b>	<b>11,845</b>
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	<b>94,972</b>	<b>2,849</b>
Unsecured wholesale financing, of which:	<b>169,899</b>	<b>106,200</b>
Operational deposits (all counterparties) and deposits in networks of cooperative banks	<b>10,534</b>	<b>2,633</b>
Non-operational deposits (all counterparties)	<b>159,339</b>	<b>103,541</b>
Unsecured debts	<b>26</b>	<b>26</b>
Secured wholesale financing	<b>1,591</b>	<b>1,426</b>
Additional liquidity requirements, of which:	<b>127,703</b>	<b>22,590</b>
Outflows related to derivative exposure and other collateral requirements	<b>21,027</b>	<b>10,748</b>
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	<b>106,676</b>	<b>11,842</b>
Other contractual funding obligations	<b>11,327</b>	<b>11,327</b>
Other contingent funding obligations	<b>73,814</b>	<b>1,987</b>
Total cash outflows	-	<b>161,914</b>
<b>Cash inflows</b>		
Secured lending (e.g. reverse repos)	<b>3,323</b>	<b>195</b>
Inflows from fully performing exposures	<b>43,132</b>	<b>28,869</b>
Other cash inflows	<b>12,137</b>	<b>7,410</b>
Total cash inflows	-	<b>36,474</b>
		Total adjusted value***
Total high-quality liquid assets (HQLA)		<b>171,739</b>
Total net cash outflows		<b>125,440</b>
Liquidity coverage ratio (%)		<b>137%</b>

\* 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 64.

\*\*\* 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 March 31, 2023	
	Total unweighted value*	Total weighted value**
	NIS millions/percent	
<b>Total high-quality liquid assets</b>		
Total high-quality liquid assets (HQLA)	-	173,662
<b>Cash outflows</b>		
Retail deposits from individuals and from small business customers, of which:	257,109	18,357
Stable deposits	77,116	3,856
Less stable deposits	111,399	12,443
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	68,594	2,058
Unsecured wholesale financing, of which:	172,463	113,657
Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,965	741
Non-operational deposits (all counterparties)	169,193	112,611
Unsecured debts	305	305
Secured wholesale financing	5,443	461
Additional liquidity requirements, of which:	125,710	19,419
Outflows related to derivative exposure and other collateral requirements	29,508	8,668
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	96,202	10,751
Other contractual funding obligations	10,734	10,734
Other contingent funding obligations	77,905	1,979
Total cash outflows	-	164,607
<b>Cash inflows</b>		
Secured lending (e.g. reverse repos)	1,525	46
Inflows from fully performing exposures	31,480	21,515
Other cash inflows	10,749	6,767
Total cash inflows	-	28,328
		Total adjusted value***
Total high-quality liquid assets (HQLA)		173,662
Total net cash outflows		136,279
Liquidity coverage ratio (%)		127%

\* 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 64.

\*\*\* 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, 2023	
	Total unweighted value*	Total weighted value**
	NIS millions/percent	
<b>Total high-quality liquid assets</b>		
Total high-quality liquid assets (HQLA)	-	175,662
<b>Cash outflows</b>		
Retail deposits from individuals and from small business customers, of which:	270,533	18,176
Stable deposits	72,474	3,624
Less stable deposits	103,772	11,723
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	94,287	2,829
Unsecured wholesale financing, of which:	167,772	110,216
Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,116	779
Non-operational deposits (all counterparties)	163,826	108,607
Unsecured debts	830	830
Secured wholesale financing	5,323	2,800
Additional liquidity requirements, of which:	137,050	25,468
Outflows related to derivative exposure and other collateral requirements	35,144	13,804
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	101,906	11,664
Other contractual funding obligations	15,788	15,788
Other contingent funding obligations	75,265	1,951
Total cash outflows	-	174,399
<b>Cash inflows</b>		
Secured lending (e.g. reverse repos)	3,260	181
Inflows from fully performing exposures	42,519	26,587
Other cash inflows	16,744	11,024
Total cash inflows	-	37,792
		Total adjusted value***
Total high-quality liquid assets (HQLA)		175,662
Total net cash outflows		136,607
Liquidity coverage ratio (%)		129%

\* 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 64.

\*\*\* 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 first quarter of 2024 (the average of the daily observations in the quarter) was 137% consolidated and for the stand-alone banking corporation, while the minimum requirement is 100%. The average ratio in the first quarter of 2024 increased in comparison to the liquidity coverage ratio in the fourth quarter of 2023, due to the recognition of certain deposits as operational deposits, in accordance with the approval of the Bank of Israel received during the first quarter of 2024, and as a result of an increase in deposits of private customers. The Bank is monitoring developments in the markets and maintaining appropriate liquidity levels in NIS and foreign currency.

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.



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

	<b>March 31, 2024</b>				Weighted value
	Unweighted value by term to maturity				
	No maturity date*	Up to 6 months	6 months to 1 year	1 year or more	
	NIS millions/percent				
<b>Available stable financing (ASF) items</b>					
Capital:	-	-	-	<b>67,966</b>	<b>67,966</b>
Supervisory capital	-	-	-	<b>67,966</b>	<b>67,966</b>
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	<b>234,629</b>	<b>23,281</b>	<b>11,952</b>	<b>248,640</b>
Stable deposits	-	<b>86,740</b>	<b>4,682</b>	<b>4,738</b>	<b>91,588</b>
Less stable deposits	-	<b>147,889</b>	<b>18,599</b>	<b>7,214</b>	<b>157,052</b>
Wholesale funding:	-	<b>216,570</b>	<b>12,732</b>	<b>4,052</b>	<b>73,627</b>
Operational deposits	-	<b>12,393</b>	-	-	<b>6,196</b>
Other wholesale funding	-	<b>204,177</b>	<b>12,732</b>	<b>4,052</b>	<b>67,431</b>
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	<b>24,497</b>	<b>10,750</b>	<b>27,912</b>	<b>35,997</b>
NSFR derivative liabilities			<b>(2,221)</b>		
All other liabilities and equity not included in the above categories	-	<b>26,718</b>	<b>10,750</b>	<b>27,912</b>	<b>35,997</b>
<b>Total available stable financing (ASF)</b>	-	<b>475,696</b>	<b>46,763</b>	<b>111,882</b>	<b>426,230</b>
<b>Required stable financing (RSF) items</b>					
Total NSFR high-quality liquid assets (HQLA)	-	<b>90,387</b>	<b>15,128</b>	<b>80,535</b>	<b>8,390</b>
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	<b>77,403</b>	<b>52,229</b>	<b>268,765</b>	<b>283,498</b>
Performing loans to financial institutions secured by Level 1 HQLA	-	<b>1,299</b>	-	-	<b>130</b>
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	<b>10,722</b>	<b>2,237</b>	<b>8,472</b>	<b>11,199</b>
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	<b>61,854</b>	<b>46,332</b>	<b>128,856</b>	<b>162,777</b>
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	<b>10,666</b>	<b>7,501</b>	<b>4,216</b>	<b>11,824</b>
Performing residential mortgages, of which:	-	<b>3,436</b>	<b>3,306</b>	<b>125,757</b>	<b>103,928</b>
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	<b>1,178</b>	<b>1,164</b>	<b>31,681</b>	<b>21,764</b>
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	<b>92</b>	<b>354</b>	<b>5,680</b>	<b>5,464</b>
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	<b>24,494</b>	<b>116</b>	<b>8,326</b>	<b>29,902</b>
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs			<b>394</b>		<b>335</b>
NSFR derivative assets			<b>6,352</b>		<b>8,573</b>
NSFR derivative liabilities before deduction of variation margin posted			<b>248</b>		<b>248</b>
Others	-	<b>17,500</b>	<b>116</b>	<b>8,326</b>	<b>20,746</b>
Off-balance sheet items			<b>188,355</b>		<b>8,692</b>
<b>Total required stable financing (RSF)</b>					<b>330,482</b>
<b>Net stable financing ratio (NSFR) (%)</b>					<b>129%</b>

\* 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)**

	March 31, 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	
	NIS millions/percent				
<b>Available stable financing (ASF) items</b>					
Capital:	-	-	-	63,373	63,373
Supervisory capital	-	-	-	63,373	63,373
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	216,859	20,288	19,907	237,681
Stable deposits	-	83,242	3,588	6,334	88,823
Less stable deposits	-	133,617	16,700	13,573	148,858
Wholesale funding:	-	212,962	14,169	6,163	72,540
Operational deposits	-	-	-	-	-
Other wholesale funding	-	212,962	14,169	6,163	72,540
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	44,002	7,641	30,434	36,841
NSFR derivative liabilities			678		
All other liabilities and equity not included in the above categories	-	43,324	7,641	30,434	36,841
<b>Total available stable financing (ASF)</b>	-	473,823	42,098	119,877	410,435
<b>Required stable financing (RSF) items</b>					
Total NSFR high-quality liquid assets (HQLA)	-	117,466	27,675	58,805	8,228
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	77,735	46,183	263,728	277,029
Performing loans to financial institutions secured by Level 1 HQLA	-	1,996	-	-	200
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	8,484	3,197	7,652	10,523
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	62,090	39,826	126,599	157,620
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	11,695	7,862	4,735	12,856
Performing residential mortgages, of which:	-	3,211	3,135	122,641	101,204
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	1,252	1,141	31,066	21,389
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	1,954	25	6,836	7,482
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	25,401	104	7,612	29,953
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs			265		225
NSFR derivative assets			7,993		7,315
NSFR derivative liabilities before deduction of variation margin posted			265		265
Others	-	16,878	104	7,612	22,148
Off-balance sheet items			184,972		8,368
<b>Total required stable financing (RSF)</b>					323,578
<b>Net stable financing ratio (NSFR) (%)</b>					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, 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	
	NIS millions/percent				
<b>Available stable financing (ASF) items</b>					
Capital:	-	-	-	66,302	66,302
Supervisory capital	-	-	-	66,302	66,302
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	222,675	30,080	13,435	245,391
Stable deposits	-	82,653	6,866	5,098	90,141
Less stable deposits	-	140,022	23,214	8,337	155,250
Wholesale funding:	-	221,966	15,671	4,185	72,047
Operational deposits	-	-	-	-	-
Other wholesale funding	-	221,966	15,671	4,185	72,047
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	33,459	8,019	27,971	34,673
NSFR derivative liabilities			(1,449)		
All other liabilities and equity not included in the above categories	-	34,908	8,019	27,971	34,673
<b>Total available stable financing (ASF)</b>	-	478,100	53,770	111,893	418,413
<b>Required stable financing (RSF) items</b>					
Total NSFR high-quality liquid assets (HQLA)	-	116,658	9,858	75,150	7,117
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	85,291	46,586	267,665	283,246
Performing loans to financial institutions secured by Level 1 HQLA	-	4,069	-	-	407
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	9,015	2,671	8,688	11,376
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	68,961	40,449	127,845	162,573
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	10,816	7,444	3,999	11,729
Performing residential mortgages, of which:	-	3,220	3,263	125,146	103,255
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	1,186	1,165	31,804	21,848
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	26	203	5,986	5,635
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	23,286	116	8,498	28,228
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs			111		94
NSFR derivative assets			8,117		9,567
NSFR derivative liabilities before deduction of variation margin posted			356		356
Others	-	14,702	116	8,498	18,211
Off-balance sheet items			195,628		8,977
<b>Total required stable financing (RSF)</b>					327,568
<b>Net stable financing ratio (NSFR) (%)</b>					128%

\* 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 March 31, 2024, 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 169.1 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**

	<b>Balance as at March 31, 2024</b>	<b>Average in the quarter ended March 31, 2024</b>
	NIS millions	
Level 1 assets	<b>167,233</b>	<b>169,649</b>
Level 2A assets	<b>1,885</b>	<b>2,084</b>
Level 2B assets	<b>18</b>	<b>6</b>
<b>Total HQLA</b>	<b>169,136</b>	<b>171,739</b>
	Balance as at March 31, 2023	Average in the quarter ended March 31, 2023
	NIS millions	
Level 1 assets	172,418	171,747
Level 2A assets	2,233	1,785
Level 2B assets	134	130
<b>Total HQLA</b>	<b>174,785</b>	<b>173,662</b>
	Balance as at December 31, 2023	Average in the quarter ended December 31, 2023
	NIS millions	
Level 1 assets	183,854	173,046
Level 2A assets	2,522	2,616
Level 2B assets	-	-
<b>Total HQLA</b>	<b>186,376</b>	<b>175,662</b>

## 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.

Since the outbreak of the Swords of Iron War, which began on October 7, 2023, the Bank has applied a series of processes and means to continue to operate optimally under the circumstances, including the activation of the Bank's business continuity plans as early as the first day of the war. Among other things, measures included convening emergency teams; the transition of headquarters employees to remote work as needed; closure of a few branches in conflict zones, and redirection of customers and employees to remote activity and other facilities of the Bank; adaptations of activity at other branches; operation of mobile branches; and continuous guidance to strengthen preparedness, with no substantial impairment of operations. The Bank is continually examining the situation and adapting its activity, convening emergency committees as necessary, and preparing for additional scenarios of escalation of the war. At the date of the report, the effect of the war on the operational activity of the Bank is insignificant.

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.

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, 2023](#).

## 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 in the accounts. 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. Further to the letter of immunity, in January 2018, the Bank received a letter from the Supervisor of Banks stating 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 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.

The letters of indemnity and immunity were extended from time to time, and their amounts were updated. On March 31, 2024, the letters of indemnity and immunity were extended by only ninety days, until June 30, 2024. The indemnity amount was updated, at the request of the Bank, and increased to NIS 3 billion in respect of each proceeding. The Bank has given advance notice to the representatives of the Palestinian banks that, as the letters of indemnity and immunity were extended until June 30, 2024, its services for the Palestinian banks will be discontinued on that date. The Bank noted that it may reconsider its position according to developments; for example, if the letters of indemnity and immunity are extended beyond the aforesaid date.

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.

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, 2023](#).

## **J. Legal risk**

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

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, 2023](#).

## **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, 2023](#).

## **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, 2023](#).

## **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, 2023](#).

## 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, 2023](#).

## 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.



Proper Conduct of Banking Business Directive 345, "Principles for Effective Management of Climate-Related Financial Risks," will take effect in June 2026. The Bank is working to implement the directive, based on an outline of work plans that individually address climate-risk aspects in relation to the "traditional" risks to which the Bank is exposed in the course of its operations, as well as other elements of the directive, via enterprise-wide work teams.

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 as at December 31, 2023.](#)

For additional information regarding environmental risk, climate risk, and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2023](#), and the Bank's report for 2023 according to the TCFD standard, within its 2023 ESG Report.

## **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.

In March 2024, the Banking Supervision Department issued a second draft of a Proper Conduct of Banking Business Directive on the subject of model risk management, regulating the principal aspects of the effective management of model risks. The Bank is examining the implications of the directive, and will adjust the current framework according to the directive.

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, 2023.](#)